NON-PERFORMING ASSETS: IMPACT & REGULATIONS

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ABSTRACT

For an economy to flourish, it's very important to have a strong banking sector as its failure can adversely impact other sectors. In India Non- performing Assets are a major concern but are the best indicators for the health of the banking industry. They reflect the performance of the banks and primarily indicate credit risks. NPAs are a predictable burden in the banking industry and hence the success of the bank depends upon how well it manages its NPAs. This paper begins with a theoretical approach towards the concept of NPAs through different views. Further, an effort has been made to look into the causes, impact, management and measures to recover the NPAs. Moreover, it discusses the role and regulation of RBI in recovering NPAs.

Key words: Non- Performing assets, Banks, RBI, loans and advances

METHODOLOGY

The research is based on descriptive and analytical study of the "Non-performing assets in banks". Thorough research has been done by relying on secondary sources. Secondary data inclusive of quantitative and qualitative data has been used over here. Apart from that, books, journals, and websites have been used for the thorough study of the topic.

INTRODUCTION

An asset becomes non-performing or NPA when it can no longer generate income for the bank, including a leased asset. It is very different from performing assets/ standard assets because standard assets do not disclose any problems and don't carry more than normal risk attached to the business. Non- performing assets have become an important concern[1] for the reforms of the banking sector and apparently the second landmark in the banking history after nationalization. After nationalization even though attention was given to the lending policy of the nationalized banks, no attention was given to the recovery of such advances[2] by the RBI.

The Banking reforms were a result of the recommendations[3] that was a step forward towards a more market oriented that would operate in an environment of prudential regulation, transparent accounting and strict capital advocacy norms.[4] Whether it is incremental increase or aggregate, NPAs of any financial institutions or even banks definitely reflect the health of the banking system.[5] To preserve the strength and stability of the banking system a proper system of income recognition and provisioning is fundamental.[6] NPA or Non- performing Assets is a loan asset that ceases to generate any income for a bank either in the form of interest or principal repayment. It can be defined to be a loan or an advance where[7]:

- In respect of a Term Loan, the interest and/or instalment of principal remain is overdue for a period of 90 days.
- In relation to an overdraft or cash credit facility, the account for a period of more than 90 days remains out of order.
- In the case of bills purchased and discounted, the bill for a period of more than 90 days remains overdue.
- Other than direct finance to farmers for agricultural purposes, identification of non- performing assets would be done in the case of agricultural loans on the same basis as non- agricultural advances.
- In respect of other accounts, any amount remains overdue for a period of more than 90 days that is supposed to be received.

[1] Recommendations of the Committee on the Financial Systems, (1991), M. Narasimham, Chairman.
[2] 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.
[3] Report of the Narasimham Committee on Banking Sector Reforms, (1991), available at- http://www.rbi.org.in, accessed 15 August, 2016.
[4]NiranjanChipalkatti and Meenakshi Rishi, 'Do Indian Banks understate their Bad Loans? The Journal of Developing Areas', (2007)Vol. 40, No. 2, p. 75-91.
[5]K. M. Shajahan, 'Non-performing Assets of Banks: Have they really declined? And on whose account? Economic and Political Weekly', (1998)Vol. 33, No. 12, p. 671-674.
[6] Report of the Committee on the Financial Systems, (1991), p. 54.
[7]Yardi, Prabhu& Prasad, 'Banker's Guide to Non-Performing Assets', (2008), 3rd Ed., p. 97-98.

RBI, further in 1987, advised all commercial banks to introduce health classification of advances (assets) under 8 categories with codes given to each borrower account, indicating the quality of individual advances. Basically, commercial banks play a very important role to develop the economy but the major threat turns out to be NPA's as they reflect the performance of the commercial banks.[8] A very high level of NPA's suggests that there is a high probability of a large number of credit defaults affecting the net-worth and profitability of the bank plus decreases the value of assets.[9]

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 also defines NPA's[10] as an asset or account of borrower which a bank or financial institution classified as sub-standard, loan or doubtful asset in two situations:

- In situations if the bank or financial institution is administered or regulated by any authority or body which any law for the time being in force constituted, established or appointed in accord with directions or guidelines issued by such authorities relating to the asset classification.
- In any other situation, in agreement with directions or guidelines issued by Reserve Bank of India relating to asset classification.

At the present situation of the economy, NPA's are the core problem for which concrete efforts have to be made for recovery. The main reasons for such increasing level of NPA's are mainly ineffective supervision of loan accounts, targeted approaches that deteriorates qualitative aspects of lending leading to wilful defaults and a lack of managerial expertise of the borrowers.[11]

THEORETICAL APPROACH- NPA

The efficient flow and allocation of financial resources, from surplus units to deficit units accelerates the economic development of a country.[12] Many empirical studies for the overall economic development, have emphasized the importance of development of financial service sector.[13]

[8] Ms. Asha Singh, 'Performance of Non-Performing Assets (NPA'S) in Indian Commercial Banks',Research Scholar, Rajasthan; International Journal of Marketing, Financial Services & Management Research, September (2013), Vol.2, No. 9.

[9]Parul Khanna, 'Managing non-Performing Assets in Commercial Banks', GianJyoti E-Journal, Apr- June (2012), Vol. 1, Issue 3.

[10] Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, Sec 2 (o).

[11]KaminiRai, 'Study on Performance of NPAs of Indian Commercial Banks, Asian Journal of Research Banking and Finance', December (2012), Vol. 2, Issue 12.

[12]Siraj, K.K., 'A Study on Non-Performing Assets of Public Sector Banks in India with Special Reference to State Bank of Travancore', Ph.D. Thesis under the Faculty of Social Sciences, School of Management Studies Cochin University of Science and Technology Kochi, February (2014).

[13]Koivu, T, 'Do Efficient Banking sectors accelerate economic growth in transition economies', BOFIT Discussion Papers, (2002), No.14; See also Levine, R, 'Financial Development and Economic Growth: Views and Agenda', Journal of Economic Literature 35, (1997), p. 688-726; See also Amaral, P. S. and Quintin, E., 'Financial Intermediation and Economic Development: A Quantitative Assessment, Conference on Latin America's Total

It has been observed that financial service sector development reduces poverty and accelerates economic growth because it widens and broadens access to finance and also efficiently allocates society's savings.[14]

Commercial Banks in the financial sector, are very important constituents and thus, NPAs pose a serious threat to banking sector's efficiency in allocating funds for developmental purposes. The alarming increase in NPA during the last two decades resulted in collapse of many banking institutions across the world and even many national and international studies and reports of expert committees have stated the significance of NPAs in banking sector crisis.[15] The evolution from pre-liberalization period and post- liberalization period shows the deviation from regulated to deregulated banking, not only in India but also in Economies like Turkey[16] and Malaysia.[17]

Lending, one of the principle functions of banks that always carries a 'credit risk' because of the borrower's inability to satisfy their obligations to the concerned financial institution.[18] According to Reserve Bank of India, once an asset including a leased asset ceases to generate income for the bank it classifies to be non-performing. It is a credit facility in respect of which the interest and/or instalment of principal has been for a specified period of time 'past due.[19]'

The Narasimham Committee (1991) had acknowledged one of the main causes for the malfunctioning of the banking sector to be mounting NPA.[20] "Financial Repression" or the regulatory measures prior to 1990[21] resulted in the lack of transparency and accountability and thus, it lead to be a rising burden of NPA.[22] The financial liberalization literature stated that the removing financial repressionist policies proved to be better because banking sector performed better all its functions including mobilization of savings and capital allocation which in turn resulted in higher growth rates.[23]

Factor Productivity Puzzle',(2007), p. 1-42, available from: http://www.laef.ucsb.edu/pages/conferences/latinamer07/papers/AmaralQuintin.pdf.

[14] Beck, T, 'Creating an Efficient Financial System: Challenges in a Global Economy', (2005), G20 Seminar on Economic Growth in Pretoria, World Bank.

[15]Narasimham Committee (1991), Verma Committee (1998).

[16]Denizer, C. Dinc, M and Tarimcilar, M., 'Measuring Banking Efficiency in the Pre- and Post-Liberalization Environment: Evidence from the Turkish Banking System', (2000), Conference Paper, INFORMS Spring Meeting Utah.

[17] Yee, C and Tan E, 'Banking Sector Stability and financial liberalization: Some evidence from Malaysia', (2009), available at: economics.ca/2009/papers/0030.pdf.

[18] Supra Note 12.

[19]Master Circular- Income Recognition, Asset Classification, 'Provisioning and Other Related Matters' – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013), Instruction 1.2.

[20] Supra Note 1.

[21] Roland, C, 'Banking Sector Liberalization in India', Conference Paper, Ninth Capital Markets Conference, Indian Institute of Capital Markets,' (2006).

[22] Reddy, YV, 'Monetary and Financial Sector Reforms in India: A Practitioner's Perspective', Conference Paper - The Indian Economy Conference, Program on Comparative Economic Development (PCED) at Cornell University, (2002).

[23] Levine, R, 'Financial Development and Economic Growth: Views and Agenda', (1997), Journal of Economic Literature 35, p. 688-726.

NPA- Views of Different Researchers

NPA's have a negative effect on the banking stability and growth, but it was not even considered to be a problem for the Indian Banking System prior to 1991. Though there are many reasons cited for the growth of NPAs yet asset quality was not a problem up until 1991 because even the accounting treatments failed to portray the quality of assets as interest on loan accounts were treated in an accrual basis.[24]

Narasimham Committee, a committee on Banking Sector Reforms was set up by RBI to dig out problems of the Indian banking sector and ultimately it had found NPA to be a major threat and thus recommended measures for income recognition, asset classification and provisioning requirements. The committee also suggested measures to enhance profitability, efficiency and productivity.[25] The main cause for the mounted NPA's in the public sector was the malfunctioning of the banks which the committee found too.[26]

The reason behind the revenues falling from traditional sources is 78% of the total NPA's accounted in public sector.[27] It can be said that the current banking scenario and need for changes in the policy shows that a major concern addressed by the banking sector reforms has improved the financial health of the banks and thus, the introduction of prudential norms are the best way out because that would make the banks alert about the risks they might suffer later in relation to their loan portfolios.[28]

The RBI had also conducted a study to ascertain the contributing factors for the growth in NPAs covering 800 top NPA accounts of 33 banks[29] and it concluded that reduction of NPA's in the banking sector, to make the Indian Banking System stronger, reliant and ready to meet challenges of globalization should be treated as a national priority issue.[30]

[24]Siraj K.K. and P. Sudarsanan Pillai, 'A Study on the Performance of Non-Performing Assets (NPAs) of Indian Banking During Post Millennium Period', March (2012), International Journal of Business and Management Tomorrow, Vol.2, Issue 3.
[25]S. Chaudhary & S. Singh, 'Impact of Reforms on the Asset Quality in Indian Banking', International Journal of Multidisciplinary Research', (2012), Vol. 2(1), p. 13-31.
[26]N. Ramu, 'Dimensions of Non-performing Assets in Urban Cooperative Banks in Tamil Nadu', Global Business Review, July/December (2009), Vol. 10, Issue 2, p. 279-297.
[27]Bhavani Prasad, G. and Veena, V.D., 'NPAS in Indian banking sector trends and issues', Journal of Banking Financial Services and Insurance Research, (2011), Vol. 1, Issue 9, p. 67-84.
[28] S.P.Talwar, 'Current Banking Scenario and the need for the policy change, Banking and financial Sector reforms in India', (1998), Vol.L III, Ed. Raj Kapila and Uma Kapila (Delhi:AcademicFoundation),p.43-52.
[29] RBI Bulletin, July (1999).
[30]Parul Khanna, 'Managing non-Performing Assets in Commercial Bank', Apr – Jun (2012), GianJyoti E-Journal, Vol. 1, Issue 3.

CONCEPT BEHIND NON- PERFORMING ASSETS

The concept is restricted to loans, advances and investments because as long as the asset generates income expected from it without disclosing unusual risk other than normal commercial risks it is performing but if it fails to generate income expected then it becomes non performing. It is an advance where payment of interest[31] remains unpaid:

- for a period of two quarters or more and
- If they have become "past due."

For example, any amount is to be treated as past due under any of the credit facilities when it remains unpaid for 30 days beyond due date. Banks generally treat assets as non-performing if they are not serviced for some time. For example, if payments are late for a short time classifying the loan as past due and once a payment is late than 90 days, the loan classifies as non-performing.[32]

NPA is usually non- performing and lenders do not get benefits out of them and can be said to be disguised loan asset. Before 31st March, 2004 NPA was said to be a credit facility in respect of which the instalment of principal or interest for a period of four quarters was due. It is now not considered to dispense with past due concept due to improvements payment and settlement system, recovery climate and up gradation of technology in the banking system.[33]

CAUSES AND IMPACT OF RISING NPAS AND ITS MANAGEMENT

The Banking Sector faces a lot of problem due to rising NPA, especially the public sector banks because they are growing due to not only external but also internal factors. One of the important factors of such a situation is the directed loan system under which 40% of the credit is supplied by the commercial banks to priority sectors.[34]

Most significant reasons are the directed loans supplied to the 'micro sector' as they are difficult to recover especially when some of its units become sick/weak.[35]

[31] Payment of Interest or repayment of instalment on principal or it can be both too.
[32]B.Selvarajan& G. Vadivalagan, 'A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks', Global Journal of Management and Business Research, (2013), Vol.13, Issue 1, Version 1.0.
[33]Chandan Kumar Tiwari &RavindraSontakke, 'Non-Performing Assets- A Cause of Concern for Banks,' ASM's International E- Journal Ongoing Research in Management and IT', INCON VIII, (2013), p. 1-6.
[34] G.V. Bhavani Prasad & D. Veena, 'NPAs Reduction Strategies for Commercial Banks in India', September (2011), International Journal of Management and Business Studies, Vol.1, Issue3, p. 47-53.
[35] M. Karunakar, Mrs. K. Vasuki and Mr. S. Saravanan, (2008), available <www.aensionline.com/rjss/2008/4>

The impact of non-performing assets can be on five aspects of the whole banking system:

- Profitability- NPA does not affect current profit and future stream of profit but may lead to some long-term beneficial opportunity. Another reason is low Return on Investment that affects the current earning of the bank.
- Liquidity- If money is blocked; it leads to decreased profit then lack of enough cash at hand, then borrowing money for shortest period of time and finally additional cost to the company. Difficulty in operating functions of bank due to lack of money is another reason.
- Involvement of Management- Time and efforts of management is another cost to be borne by the bank due to NPA. The bank has to employ special employees to handle NPAs that is an extra cost.
- Credit Loss- If a bank is facing problems of NPA then it adversely affects its value because it loses its goodwill and brand image and credit which creates negative impression on its customers.

RBI in its annual report of 2010 stated NPA to be an area of great concern and it is also clear that traditional approaches to the regulation of banks is not favorable for management of banks.[36] Instead of accommodating measures to combat the rising NPAs the traditional approaches tried protecting the interest of deposits by maintaining adequate capital in liquid form. The availability of funds for public purposes was affected as the banks were not able to lend but only keep them as reserves. For the survival and growth of banks, management of NPAs is a must because of credit risks also.[37]

Strengthening the financial systems is one of the central issues that is faced by emerging markets and developing economies because it serves as an important channel for obtaining economic growth. Essential components of sound NPA management are first, identifying NPA quickly, second at a minimum level their containment and last ensuring its minimum impact on financials.[38]

Lending involves three stages where there needs to be discretion; evaluation and assessment of the proposal, timely monitoring and proper assessment of exit modality and decision.[39] But evaluation of project ideas and their management is something in which the banks are least equipped with.For effectively managing NPAs there are proactive measures that imply efficient loan appraisal and

[36]Murinde, V and Yaseen, H, 'The Impact of Basle Accord Regulations on Bank Capital and Risk Behavior: 3D Evidence from the Middle East and North Africa (MENA) Region', (2004), 3rd International Conference of the Centre for Regulation and Competition (CRC) on "Pro-Poor Regulation & Competition: Issues, Policies and Practices".

[37] Supra note 18.

[38]Borbora, 'Management of Non-Performing Assets (NPAs) in the Urban Cooperative Banks (UCBs)', (2007), College of Agricultural Banking, Reserve Bank of India, [Online], available at: http://www.cab.org.in/Lists/Knowledge%20Bank/Attachments/26/NPA%2 0MANAGEMENT.pdf.

[39]Panta, R, 'Challenges in Banking: A Nepalese Diaspora, Socio-Economic Development Panorama', (2007), Vol. 1, No.2, p. 9 -22.

management, while curative measures focus on realizing accounts of NPA using minimum efforts. Bankers should satisfy themselves that projects that requires funds are technically and also commercially feasible and by way of assured market all forward links are available.

It should be ensured that the various assumptions of the project are realistic and achievable because some projects due to unrealistic planning and faulty implementation are born sick.[40] Instead of waiting for the mandatory period of before classifying an asset as NPA, the banker should look for its early warning signals.

There are legal as well as non-legal measures for the management of NPA present. Non-legal measures include; review of NPA accounts, Corporate Debt Restructuring, up-gradation of NPA, recalling advances and recovery of written-off cases. Legal measures includes recovery through judicial processes, DRTs[41] and SRFAESI Act. While the functions of the DRTs are to entertain the cases referred to them by banks and financial institutions for recovery of debts, the SRFAESI Act provides formal legal basis and regulatory framework for setting up Asset Reconstruction Companies (ACR's) in India.After liberalization, it has been observed in many developing countries that banking systems exhibited poor performance.[42] Financial sector reforms not only needs setting rules, articulating standards and approving legislations but also change in behavior of financial institutions.[43] Thus, even NPA management requires changes in behavior of bankers towards loan portfolios in addition to different measures to manage NPAs.

ROLE AND REGULATIONS OF RBI IN RECOVERING NPAS

Committee on financial system made certain recommendations regarding a bank's financial accounts and the balance sheet. Keeping these recommendations in consideration, RBI introduced various norms in 1922-1923, for recognition of income, for classification of assets and regarding provision for advance portfolios.[44] As per the norms, bank assets should be classified on objective basis so that there is a consistent and uniform application of the rule. Banker should take steps for ensuring that asset not becomes NPA. But if it becomes NPA, steps must be taken for its recovery, otherwise profitability will reduce[45]. A look at how banks declare accounts as NPAs clearly shows that

[40]Patidar, S. and Kataria, A. (2012), 'An analysis of NPA in priority sector lending: a comparative study between public sector banks and private sector banks of India',Bauddhik, Vol. 3 (1), p. 54-69.
[41]It was formed under the Banks and Financial Institutions Act, 1993.
[42] Hsiao, H., Chang, H., Cianci, H.C. and Huang, L., 'First financial restructuring and operating efficiency: Evidence from Taiwanese commercial banks', (2010), Journal of Banking and Finance, No. 34, p.1461.
[43]Bossone, B. and Promisel, L., 'Strengthening Financial Systems in Developing Countries The Case for Incentives-Based Financial Sector Reforms', (2010), The World Bank Group.
[44]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's, Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 1.1.
[45] Shri R. R. Borbora, Member of Faculty, CAB, 'Management of Non-Performing Assets (NPAs) in the Urban Cooperative Banks (UCBs)'.

fundamental principles that are envisaged in preamble are overlooked.[46]As per the norms, an asset is said to be Non -performing when it has stopped generating income for bank.

Earlier rule was that an asset will be measured as Non- performing on base of "PAST DUE" concept.[47] This concept basically says that if amount is outstanding 30 days after the due date, than it is past due amount.

But this concept is now no more in use because now the period is calculated from the date on which payment was due. NPAshall be considered a loan when the following exist:

- Firstly, If in case of term loan, interest on principal amount or installment has remained overdue more than 90 days
- If in respect of OD or CC that is Overdraft or Cash Credit , if the account is out of order for 90 days or more
- If bills that are purchased and discounted remain overdue for 90 days or more
- If any amount that has been due to the bank has not been paid till the due date is overdue

For all agricultural advances which are direct in nature, if a loan is for crops of small duration and the interest on the principal amount or installment is for 2 crop seasons overdue, than it is an NPA[48]. But if loan is for crops of a long duration than it is treated as NPA only if the interest on principal amount or installment has been for one crop season overdue. Basically, if crops are crops for season of more than one year than its considered as crops of long duration and crop season of crops is determined by State banker's committees.[49]

Concerning identification of non-performing assets, the norm is that it should be done on on-going basis. Also, banks are required to make provisions regarding NPAs at each calendar quarter's end.[50]Asset's treatment[51] as an NPA must be based on recovery record. An advance should not be treated as an NPA just because of the fact that there are some deficiencies that are of a temporary nature like "outstanding balance being more than the limit" or "non-submission of the stock

[46] T. R. Radhakrishnan, 'Non- performing assets or NPA- An overview'.
[47]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 1.2.
[48]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 2.1.5.
[49]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 2.1.5 (III).
[50]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 2.1.6.
[51]Reserve Bank of India, Master Circulars, available- https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9850#C2.

statements"etc. Where in cases the recoverability is in doubt or if there is threat regarding loss, then asset must be considered as NPA.[52]

Wherein the borrower has more than one bank facilities, then all this facilities will be considered as NPA and not one specific facility or any part of it.[53] But if there is multiple banking kind of arrangement then the particular bank may as per its own recovery record classify the account of borrower.[54]

Agricultural advances- Whenever natural disasters affect the repayment capacity of the agricultural borrowers, Banks as part of relief may on their own convert short term loan to a term loan or bank might even go for changing the period of repayment or bank may even go for sanctioning a fresh loan (short term). In such type of case, the loan either term loan or the new loan for short term may be considered current dues and not as NPAs[55].

If housing loan or such kind of similar advance is given to members of the staff and if interest on it is payable after the recovery of principal amount then from the first quarter, it is not treated as overdue. Such types of advances are considered NPAs when there is repayment default (repayment of installments or interest on the specified due dates).[56]

Credit facilities by government- If credit services are maintained by a guarantee of Central Government nevertheless overdue must not be considered NPA. It is not for the income recognition.[57]If amount outstanding (amount of interest or the principal) have been paid in case of accounts that later became NPAs, such account must not anymore be considered as nonperformingand should be treated as standard accounts.[58]

When it comes to reporting to the RBI, Banks must report the statistics of NPAs to RBI Regional Office's at ending of each year in 2 months. The income from NPAs is considered as income when it is received actually. Hence it is not on accrual kind of basis.[59] If advance guaranteed by

[52]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 2.2.1.
[53]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013), Instruction 2.2.2 (i).
[54]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013), Instruction 2.2.2 (ii).
[55]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 2.2.3 (ii).
[56]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 2.2.4.
[57]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 2.2.5.
[58]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 4.2.5.
[59]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 4.1.1.

government becomes overdue and then NPA, in that case interest on advance unless realized must not be taken to the income account.[60]

CONCLUSION

NPA's reflect the overall performance of the banks but they also face serious problems in relation to such assets. A high level of NPA's suggests a high probability of a large number of credit defaults affecting the profitability and liquidity of banks. To improve efficiency the NPA's had to be scheduled and various steps have to be taken by government to reduce the NPA's. Measures required to be undertaken are mainly two fold - preventive and curative. Banks first should try to avoid new additions on NPAs by their effective presentation appraisal and then recover the amount from accounts which have already turned bad.

Some of the preventive measures can be proper evaluation of the loan application to detect the unviable projects at the first instance, full information about unit, industry, its financial stake management, and etc. should be collected, industrial cell should be established at the bank level which would carry complete information about the industry and its prospects in future. The curative measures can be establishing DRTs or provisions under SRFAESI Act, enforcement of security and obtaining court decree takes a long time and increases willful default and ultimately banks are compelled to write off loans and thus it should be declared a criminal offence.

Though NPAs are such an alarming problem yet it is highly impossible to have zero percentage of such assets but at least the Indian banks should take care and ensure that the loans are given to creditworthy customers.

[60]Master Circular- Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCB's Master Circular UBD BPD (PCB) MC No.3/09.14.000/2013-14, July 1, (2013),Instruction 4.1.4.

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