

Chapter 5

Data Analysis & Interpretation

Introduction

The banking sector is caught in the vicious circle of Non Performing Assets (NPAs). The growing proportion of the NPAs in the advances of banks and financial institutions has engaged the attention of Government, bankers, economic experts and the general public. Specifically NPA level of co-operative banking sector is high as compare to other banking sectors. The NPAs have been described as a misuse of the public money which should be used with utmost care and a sense of responsibility.

It has been recognized that the growing NPAs can eventually destabilize and perhaps destroy the co-operative banking sector of the country and as such urgent and effective remedies are essential to stem the menacing growth of NPAs. An unstable and weak co-operative banking sector can jeopardize the entire process of economic development because co-operative banking occupied an important position in respect of rural development in India.

The subject of dissertation is “A Study of Non Performing Assets of Co-operative Bank” so in this chapter researcher has made attempt to analyse in short the overall position of NPAs of various co-operative banks according to their types. Further attempt has been made to analyse the NPA position of sample bank i.e. The Commercial Bank Ltd. Kolhapur. In the latter part of this chapter an extensive review and examination has been made to the causes of the NPA of UCBs in general and explained few remedies to overcome those causes.

A. Non performing Assets of Co-operative banks as a whole

1. NPAs of Rural Co-operative banks : -

1.1 Overall Performance :

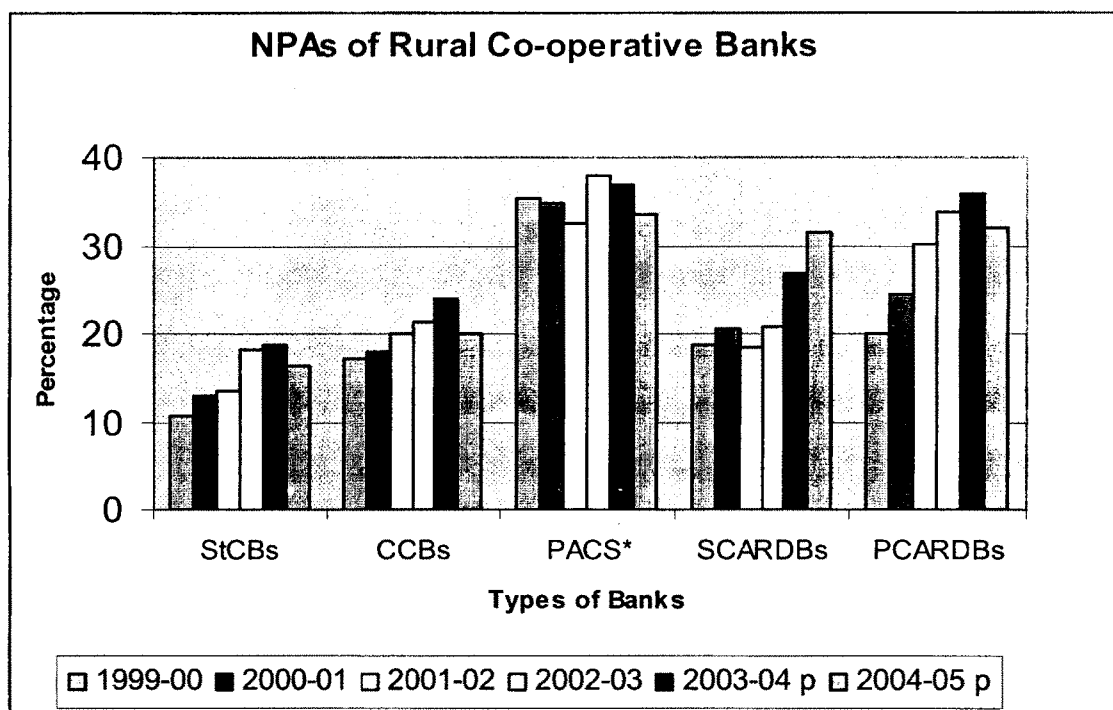
As reviewed previously in chapter I the Rural co-operative banks has bifurcated into two wings viz. short term and long term. The short term structure consist State Co-operative banks, Central co-operative banks and Primary Agricultural Credit Societies. However long term structure consist State Co-operative Agricultural And Rural Development Banks and Primary Co-operative Agricultural and Rural Development Banks. Table No.5.1and Graph No.5 (i) shows percentage of NPAs of these banks form 1999-00 to 2004-05.

Table No. 5.1

NPAs of Rural Co-operative Banks

Year	StCBs	CCBs	PACS*	SCARDBs	PCARDBs
1999-00	10.7	17.2	35.4	18.7	20.0
2000-01	13.0	17.9	34.9	20.5	24.3
2001-02	13.4	19.9	32.5	18.5	30.2
2002-03	18.2	21.2	37.9	20.9	33.8
2003-04 p	18.7	24.0	36.8	26.7	35.8
2004-05 p	16.3	19.9	33.6	31.3	31.9
P : Provisional.					
* Percentages of overdues to demand.					
StCBs	State Co-operative Banks.				
CCBs	Central Co-operative Banks.				
PACS	Primary Agricultural Credit Societies.				
SCARDBs	State Co-operative Agriculture and Rural Development Banks.				
PCARDBs	Primary Co-operative Agriculture and Rural Development Banks.				
Note : Prudential norms were made applicable to the UCBs since 1992-93, the StCBs and CCBs since 1996-97 and SCARDBs and PCARDBs since 1997-98					
Source : Reserve Bank for UCBs and NABARD for Rural Co-operative Banks (excluding PACS for which the source is NAFSCOB).					

Graph No .5.(i)



From the graphical presentation it is seen that, there is continuous increase in the level of NPAs of all Rural Co-operative Banks for each year from 1999-00 to 2004-05 (Except few years). As far as concern all Rural Co-operative Banks, the NPAs level of StCBs is low. During 2004-05 it is 16.3 % which is low as compared to other Rural Co-operative Banks. But still it is continue to be high as compared to Commercial Banking Sector. However NPAs level of PACS is high in all Rural Co-operative banks. It is 33.6 % for the year ended on 2004-05. It is a highest level of NPAs in respect of all banking sector.

If we compare short term and long term structure of Rural Co-operative Banks, we can see that level of NPAs of long term structure is higher than short term structure. As in respect of both SCARDB and PCARDBs NPA level is high i.e. 31.3 % and 31.9 % respectively in the year 2004-05. If we compare last year data there is slight decrease in level of NPAs in respect of all types of Rural Co-operative Banks.

1.2 Asset Quality and Recovery Performance of Rural Co-operative Banks

1.2.1 State Co-operative Banks (StCBs) : -

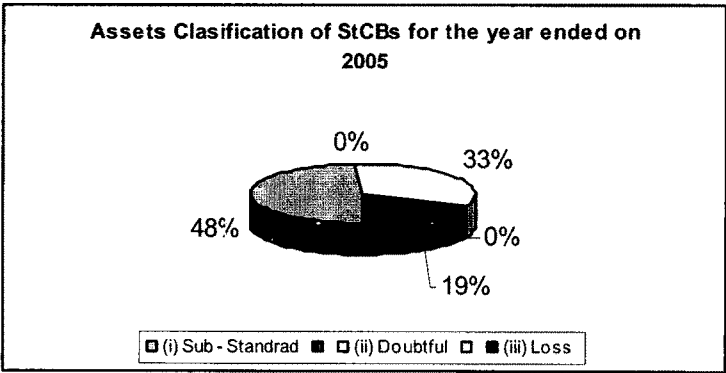
During 2004-05, the overall NPAs of StCBs declined both in absolute and percentage terms although the NPAs to total loans ratio at 16.3 per cent continued to be high. Total NPAs are declined from Rs. 6548 crore during 2004 to Rs. 6072 crore during March 2005. There is decline in sub-standard and doubtful assets but loss assets is increased. Recovery performance need to improve to reduce the high NPAs. In sync with earlier years, StCBs met the provisioning requirement during 2004-05 (Table No 5.2).

Table No. 5.2

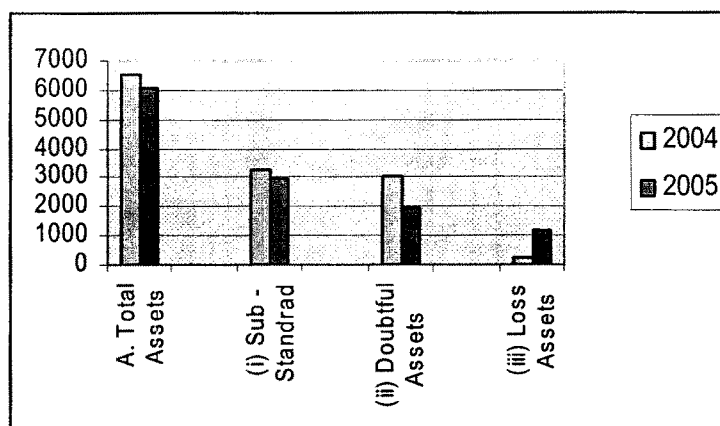
Asset Quality & Recovery Performance of StCBs

Particulars	As at year ended on March	
	2004	2005
A. Total Assets Classification	6548	6072
Total NPAs (i + ii + iii)	(100)	(100)
(i) Sub – Standard Assets	3288 (50.2)	2961 (48.8)
(ii) Doubtful Assets	3010 (46.0)	1975 (32.5)
(iii) Loss Assets	250 (3.8)	1136 (18.7)
B. NPAs To Loan Ratio	18.7	16.3
<i>Memo Items.</i>		
(i) Recovery to Demand	83.3	83.5
(ii) Provision Required	3435	2806
(iii) Provision Made	3696	2982
1. Figures in brackets represent percentages to total.		
2. Source : Report on Trend and Progress of Banking in India 2005-06		

Graph No 5(ii)



5(iii)Chart showing Asset Quality of StCBs



1.2.2 Central Co-operative Banks (CCBs) : -

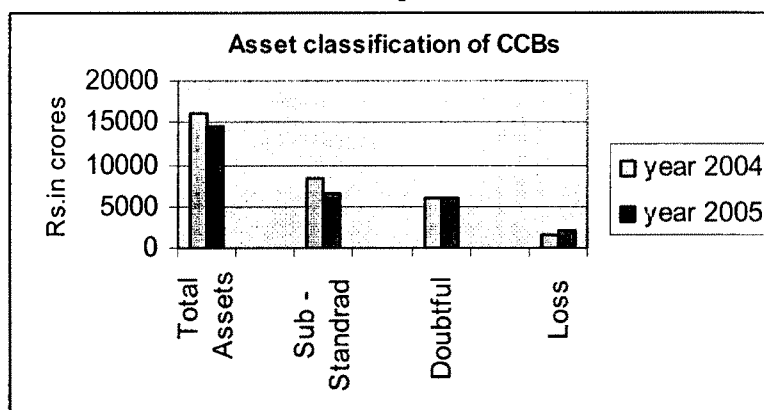
NPAs of DCCBs during 2004-05 declined sharply both in absolute and relative terms. At the same time, recovery performance also improved from 62.9 percent at March 2004 end to 72.2 percent at March 2005 end. However, substantial asset slippage was also noticed, mainly in loss assets category. Provisions made increased from Rs.6,900 crore in 2003-04 to Rs.11,387 crore in 2004-05 (Table No. 5.3).

Table No. 5.3

Asset Quality & Recovery Performance of CCBs

Particulars	As at year ended on March	
	2004	2005
A. Total Assets Classification	16144	14520
Total NPAs (i + ii + iii)	(100)	(100)
(i) Sub - Standard Assets	8428 (52.2)	6468 (44.3)
(ii) Doubtful Assets	6068 (36.6)	6053 (41.7)
(iii) Loss Assets	1648 (10.2)	1999 (13.8)
B. NPAs To Loan Ratio	24 %	19.9%
<i>Memo Items.</i>		
(i) Recovery to Demand	62.9%	71.2%
(ii) Provision Required	6297	8678
(iii) Provision Made	6900	11387
1. Figures in brackets represent percentages to total.		
2. Source : Report on Trend and Progress of Banking in		

Graph No 5(iv)



1.2.3 State Co-operative Agricultural and Rural Development Banks

(SCARDBs) :-

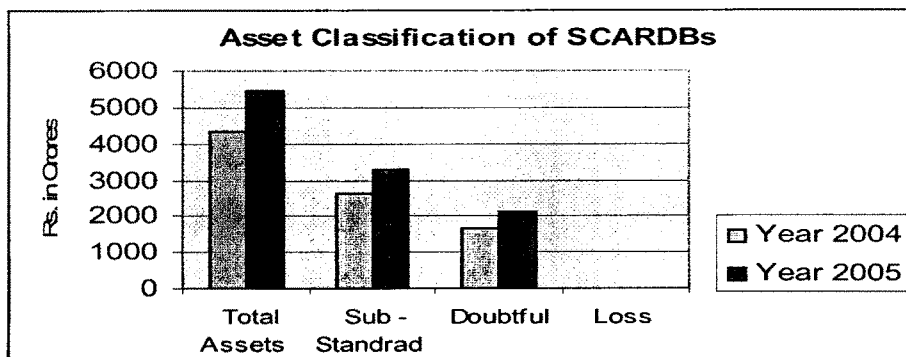
The overall NPAs of SCARDBs increased during 2004-05 both in absolute terms and in relation to total loan portfolio. However, most of the NPAs of SCARDBs is in the sub-standard and doubtful categories. Loss assets constituted a small portion of overall NPAs. SCARDBs performed poorly on the recovery to demand and worsening asset quality warranted higher provisioning during 2004-05 (Table 5.4).

Table No. 5.4

Asset Quality & Recovery Performance of SCARDBs

Particulars	As at year ended on March	
	2004	2005
A. Total Assets Classification	4336	5437
Total NPAs (i + ii + iii)	(100)	(100)
(i) Sub - Standard Assets	2630	3288
	(60.6)	(60.5)
(ii) Doubtful Assets	1686	2129
	(38.9)	(39.2)
(iii) Loss Assets	20	20
	(0.5)	(0.4)
B. NPAs To Loan Ratio	26.7%	31.3%
<i>Memo Items.</i>		
(i) Recovery to Demand	43.8%	43.7%
(ii) Provision Required	833	1024
(iii) Provision Made	833	1097
1. Figures in brackets represent percentages to total.		
2. Source : Report on Trend and Progress of Banking in India 2005-06		

Graph No 5(v)



1.2.4 Primary Co-operative Agricultural and Rural Development Banks (PCARDBs)

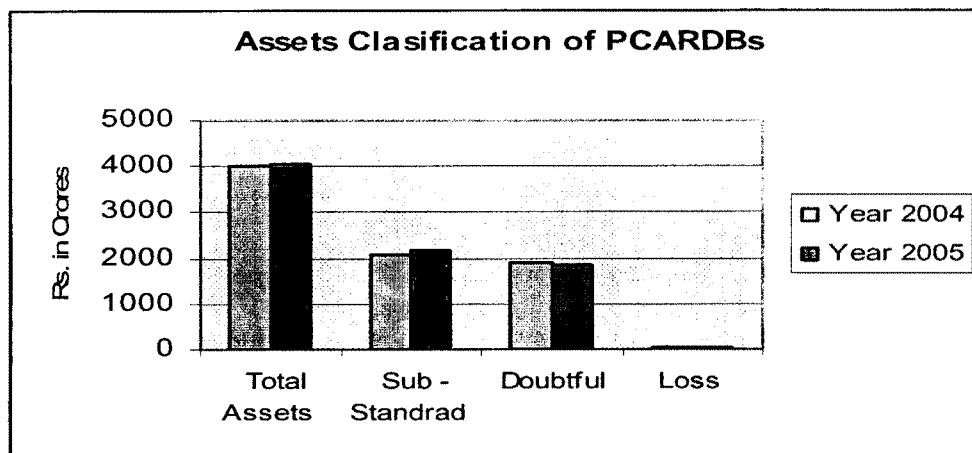
The overall NPAs of PCARDBs increased during 2004-05, although substantial growth in loan portfolio brought down the NPAs to loan ratio. No significant asset slippage is observed during the year. Although recovery performance improved during the year, it needs to improve much further to lower the level of the NPAs. Provisioning made by PCARDBs is more than the provisioning required, a trend in sync with other institutions in the rural co-operative banking sector

Table No .5.5

Asset Quality & Recovery Performance of PCARDBs

Particulars	As at year ended on March	
	2004	2005
A. Total Assets Classification	4016	4056
Total NPAs (i + ii + iii)	(100)	(100)
(i) Sub - Standard Assets	2079	2161
	(51.9)	(53.3)
(ii) Doubtful Assets	1890	1845
	(47.1)	(45.5)
(iii) Loss Assets	47	50
	(1.2)	(1.2)
B. NPAs To Loan Ratio	35.8%	31.9%
<i>Memo Items.</i>		
(i) Recovery to Demand	43.9%	50.6%
(ii) Provision Required	944	872
(iii) Provision Made	943	910
1. Figures in brackets represent percentages to total.		
2. Source : Report on Trend and Progress of Banking in India 2005-06		

Graph No. 5(vi)



2. NPAs of Urban Co-operative Banks.

The prudential norms were made applicable to UCBs since 1992.93. UCBs are unique in terms of their clientele mix and channels of credit delivery. UCBs are organized with the objective of promoting thrift and self-help among the middle class or lower class population and providing credit facilities to the people with small means in the urban / semi urban centre. However, UCBs have shown several weaknesses, particularly related to their financial health due to growing level of NPAs Table No.5.6 shows level of NPAs of UCBs.

Table No. 5.6

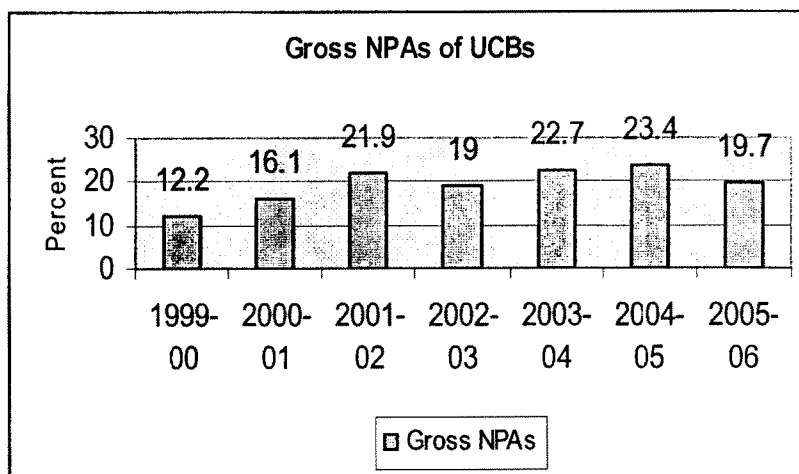
NPAs of UCBs from 1999 to 2006

Year ended on March	No of Reporting UCBs	Gross NPAs (Rs.Crore)	Gross NPAs as to total advance
1999-00	1748	4535	12.2
2000-01	1942	9245	16.1
2001-02	1937	13706	21.9
2002-03	1941	12509	19.0
2003-04	1926	15406	22.7
2004-05	1872	15486	23.4
2005-06	1853	13871	19.7

P.: Provisional

Source : Report on Trend and Progress of Banking in India 2002-03
2004-05 and 2005-06.

Graph No. 5(vii)



The Gross NPAs of UCBs become Rs. 13871 crore as on 31/3/2006, showing 3.06 times growth as compare to Gross NPA of 31/3/2000. Similarly the ratio of gross NPAs to total advances increased from 12.2 per cent in 1999-2000 to 19.7 per cent in 2005-06. As compared last two years figures. It shows that the asset quality of UCBs improved significantly during the year. This was reflected in sharp decline in NPAs in absolute as well as percentage terms. However, NPAs of UCBs at 19.7 per cent at end March, 2006 is still high as compared to Commercial banking sector.

3. Comparison of NPAs of Commercial Banks and UCBs : -

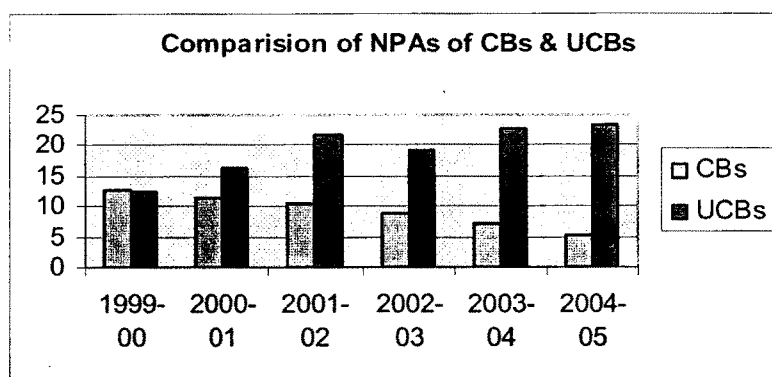
Table No.5.7 shows percentage of NPAs of Commercial Banks and UCBs

Table No. 5.7

Comparison of NPAs of Commercial Banks and UCBs

Year ended on March	Commercial Banks	UCBs
1999-00	12.7	12.2
2000-01	11.4	16.1
2001-02	10.4	21.9
2002-03	08.8	19.0
2003-04	07.2	22.7
2004-05	05.2	23.4
Source : Report on Trend and Progress of Banking in India 2002-03 2004-05 and 2005-06.		

Graph No 5(viii)



There is huge difference between NPAs of Commercial Banks and UCBs. In 2004-05 NPAs of Commercial Banks is only 5.2 per cent and UCBs is 23.4 per cent. As per the trend from 1999-00 to 2004-05, in respect of Commercial Banks there is continuously decline in the percentage of NPAs. As against it there is continuous increase in NPAs of UCBS form 12.2 per cent in 1999-00 to 23.4 per cent in 2004-05. Thus, now a days huge amount of NPAs is a critical problem before UCBs

4. Measures taken by NABARD to reduce NPAs Of Co-operative banks : -

High level of NPAs of Co-operative banks has been a major cause of concern. With a view to reducing NPAs, co-operative banks were advised to make a detailed assessment of NPAs and to draw up strategies to bring them down to reasonable levels. Various measures are suggested to co-operative banks in this regard including one time settlement scheme (OTS). Lok Adalats and referring high value advances to Debt Recovery Tribunals (DRTs). Besides, the refinance policy of NABARD was revised and linked to the level of NPAs so as to restrict refinance flow to banks with high level of NPAs. The state Government were requested to help co-operative banks in reducing the NPAs by taking up special recovery drive. With the support from the state Government dept. Co-operative banks are being encouraged to promote Farmer's clubs and SHGs for their lending operations to reduce NPAs. Regional offices of NABARD were advised to provide necessary guidance to co-operative banks in this regard.

B. Case Study of The Commercial Co-operative Bank Ltd., Kolhapur.

1. Loan Sanction Procedure : -

The term NPA is related to Loans and advances. So before review of NPAs of the commercial Co-operative Bank, researcher has studied the loan appraisal and sanctioning procedure of the bank. It is necessary to study the loan sanction procedure because faulty loan sanction procedure is the first step to become the asset as non performing asset.

On the basis of discussions with the management, BOD and on the basis of examination of the procedure, the researcher found that, the bank has a sound loan sanction procedure. To study the procedure the researcher observed one loan procedure from start to end.

The Commercial Co-op. Bank has not constituted a separate loan sanction committee, but all loan proposals are sanctioned by the BOD in the board meeting. However up to some extent authority is given to the branch level Committee for the loan proposals of that branch. At branch level bank formulate committee of directors including manager and specify limit in respect of each categories of loans. The limit is as follows,

Simple Loan	up to Rs. 25000/-
On security of immovable property	up to Rs. 50000/-
On security of machinery	up to Rs. 50000/-
On pledge on gold	up to Rs. 25000/-
On security of fixed deposits	85% of fixed deposits
Hire purchases	50 % of bill amount
On security of vehicle	75% of quotation

In respect of all above loans, the decision taken by committee of that branch and recorded in the loan sanction register. Such register is then transferred to H.O., where BOD authenticate the register by putting his signature on register.

Chart No. IV
Loan Sanction Procedure

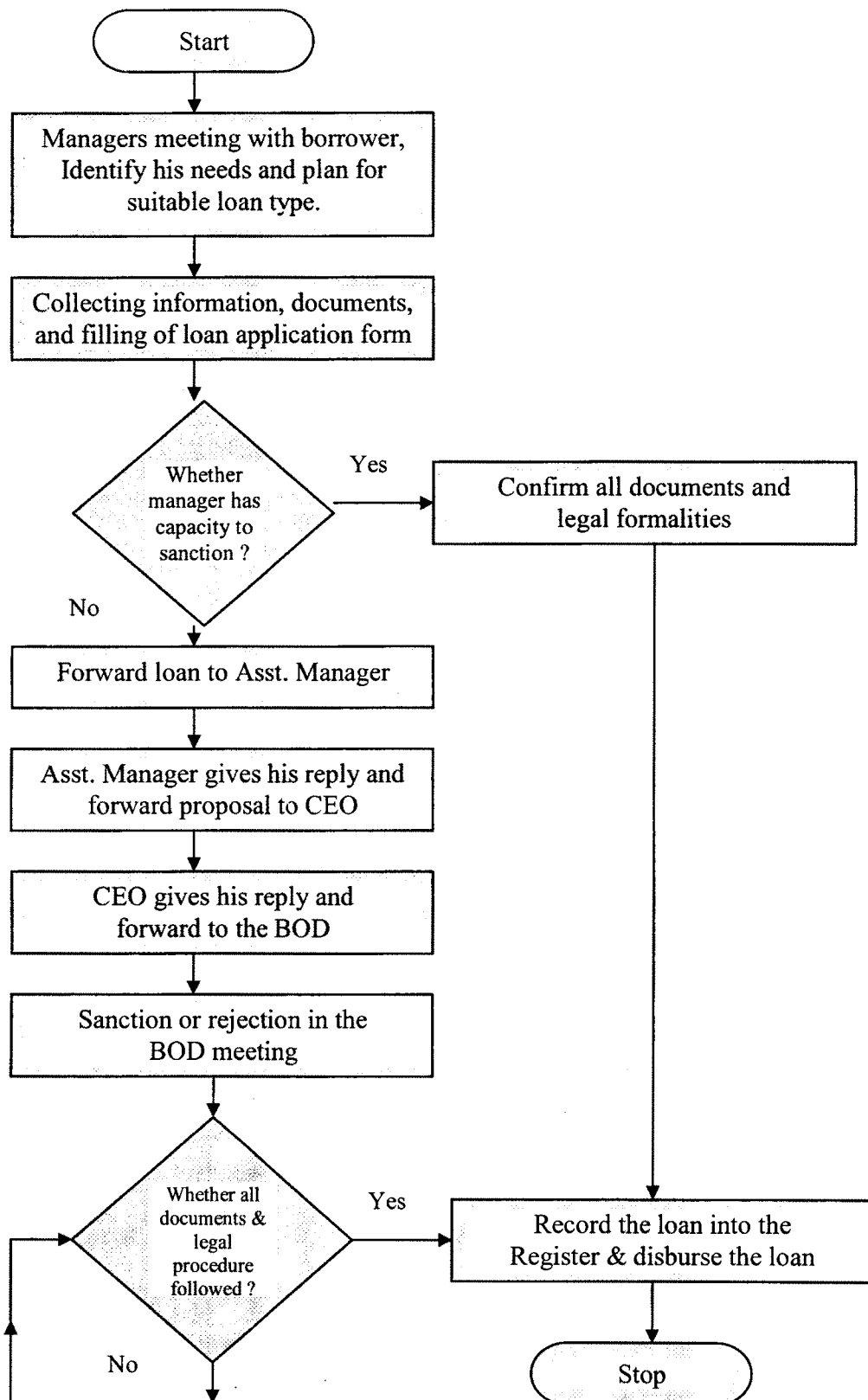


Chart No. IV indicate the loan sanction procedure. Firstly manager meets the borrower and identify his needs and accordingly suitable loan type is decided. According to the types of loan, manager collects information and documents from proposed borrower. After that manager fill application form on the basis of that information. If the loan is within his authority, he authenticate all documents, confirm all legal formalities and sanction loan at branch level. Otherwise forward loan proposals to the Asst. manager.

The Asst. manager study the loan proposal along with all documents and mention his objections/ opinion and remarks if any and forward the proposal to CEO. The CEO analyse the proposal from his point of view, gives his recommendation and forward the proposal to BOD.

The BOD is the supreme authority, who decide whether to sanction or not any loan proposal. If loan is sanctioned in BOD's meeting, they inform manager to fulfill all documents and legal procedures i.e. mortgage deed etc. After receipt of all documents manager record the loan into loan register, and to the loan ledger and disburse the loan to the borrower.

2. Internal Control Procedure before sanction of Loan : -

The bank manager follows following internal control procedure before sanctioning any loan. It is obligatory to the manager to check or collect all information and documents recommended by top level management. The internal control procedure for loans and advances on the basis of security provided by borrower is as follows,

2.1 General

2.1.1. If borrower is businessman / trader :

- PAN Card and Ration Card Xerox See the particulars of business carried on by proposed borrower and permission to carry such types of business / trade i.e. License, if applicable

- If borrower is a Company, then collects Certificate of Incorporation, Memorandum of Association, Article of Association, BOD resolution etc.
- If borrower is a Partnership Firm, then bank collects Partnership Deed.
- Collects last three years Profit and Loss A/c, Balance Sheet and other financial information.
- Xerox copy of Income Tax Return and Income Tax Assessment Order copy.
- The bank requires Project Report for loan exceeding Rs. 5,00,000/-
- Information about other loans and advances taken by borrower in the Commercial Co-op. bank and any other bank, security provided in respect thereof.
- Financial and other information about Guarantor to be provided by borrower.

2.1.2. If borrower is a salaried person

- Current / last month salary slip
- PAN Card and Ration Card Xerox
- Last year Income Tax Return to assess income other than salary.
- Information about other loans and advances taken by borrower in the Commercial Co-op. bank and any other bank, security provided in respect thereof.
- Financial and other information about Guarantor to be provided by borrower.

2.2 Loan Secured on Immovable Property. :-

The bank sanction loan on basis of immovable property upto 60 percent of valuation of such property. The period of loan is varied on basis of amount of loan. In respect of loan upto Rs. 20,000/- the period is 40

months, for loan exceeding Rs. 20,000/- but upto 2,00,000 – 60 months, for loan exceeding Rs. 2,00,000 but upto Rs. 5,00,000 – 80 months and loan exceeding 5,00,000 – 100 months.

The bank confirms following things in respect of loan secured on basis of immovable property.

- Original Title Deed / (Purchase Deed of property)
- Mortgage Deed (in case of English Mortgage) or letter of indent to create Mortgage (in case of Equitable Mortgage)
- Property Extract or 7 / 12 Extract of the property which is proposed to be given as security.
- Search Report of Advocate, if loan amount is Rs. 100,000 or above
- Map / Design of property to be given as security.
- Valuation Report for valuation of that property.
- No objection certificate of Housing Society if building belongs to Housing Society.
- If loan is for construction of house, then permission taken from Municipal Corporation, plan and estimate of the house property.

2.3 Vehicle / Machinery / other Hire Purchase Loan : -

In respect of such types of loans the bank sanction upto 75 percent of valuation / quotation of such asset and 50 percent of valuation of asset if it is second handed asset. The period of loan is same as applicable to loan secured on the basis of immovable property i.e. in respect of loan upto Rs. 20,000/- the period is 40 months, for loan exceeding Rs. 20,000/- but upto 2,00,000 – 60 months, for loan exceeding Rs. 2,00,000 but upto Rs. 5,00,000 – 80 months and loan exceeding 5,00,000 – 100 months.

The bank confirms following things in respect of loan secured on the basis of immovable property.

- The bank require quotation of vehicle / machinery / other household commodities, if they are new.

- Require Valuation Report in respect of old / second handed Vehicle / machinery.
- In respect of second handed vehicle, the model shall not be 5 or above years old.
- At least 25 percent or 50 percent (for second handed asset) of value of quotation shall be deposited in bank by borrower.
- Record the name of the bank on the purchase receipt of the vehicle / machinery / other house hold commodities.
- Obtain original R.C. Book and T.C. Book.
- Full insurance of vehicle / machinery shall be obtained.
- The original bill shall be in the custody of the bank.
- The loan shall be made available against vehicle having Kolhapur R.T.O. Passing only.

2.4 Loans Secured on Goods : -

- See whether borrower have necessary experience in dealing with the goods offered as security. Also ensure that the borrower has necessary license to trade in certain specified goods.
- Obtain monthly statement in respect of valuation of stock of goods.
- Ensure that the borrower has owner of the goods
- Ensure loan demanded is not for speculative purpose
- The goods shall be fully insured.
- Surprise check in respect of goods given as security.

2.5 Loan against banks own Deposit Certificate :-

- Deposit receipt shall be discharged by the borrower by affixing thereon an appropriate revenue stamp.
- The lien of the bank shall be noted on the face of the Certificate of Deposit.
- Loan shall be granted upto 85 percent of face value of Deposit Certificate.

2.6 Loan on pledge on gold :-

- Insure the borrower is the owner of the gold ornaments
- Weight, quality, and caret of gold are checked and certified by the valuator, authorised by bank.
- Bank shall lend Rs. 600 for one gram of gold.

3. Review of Growth of Loans and Advances: -

Table no. 5.8 shows the position of loans and advances of bank during 2001-02 to 2005-06.

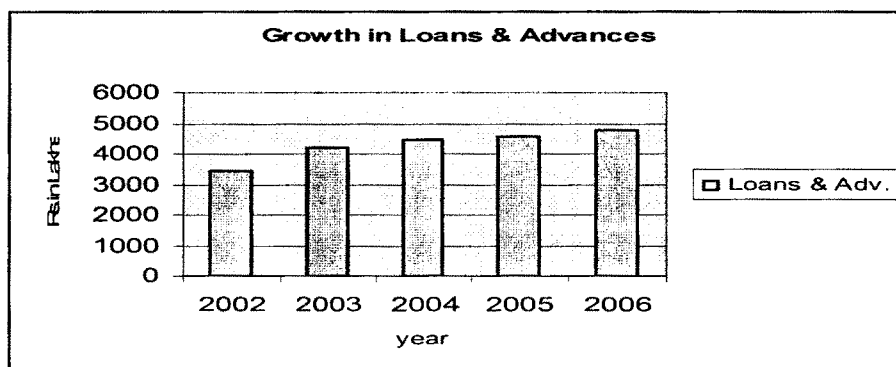
Table No. 5.8

Growth of Loan and Advances of the bank

Year ended on	Loans & Advances	Increase/ (Decrease)	Percentage increase
31/03/2002	3430.83	827.53	31.79
31/03/2003	4214.47	783.63	22.84
31/03/2004	4442.61	228.15	5.41
31/03/2005	4585.53	142.91	3.22
31/03/2006	4785.41	199.89	4.36

Source : Annual Report of the bank (Rs. In lakhs)

Graph No (ix)



The loan and advances of the bank is 3430.83 lakhs at year end mar.2002. It is increased to Rs. 4785.41 lakhs as at year end March 2006. At the initial years the growth rate was high i.e. as at year end March2002, 2003 the growth rate was 31.79 % and 22.84 % respectively. But thereafter there is continuous decline in growth rate of loans and advances.

4. Period wise Classification of Loans and Advances :-

The period wise classification consist short term, medium term and long term loans and advances. The short term loans and advances are loans which repaid within 1year, medium terms loans are repaid within 1 to 5 years and loan term loans are repaid after 5 years. Table No 5.9 shows period wise classification of loans and advances for the period form 31/3/2002 to 31/3/2006.

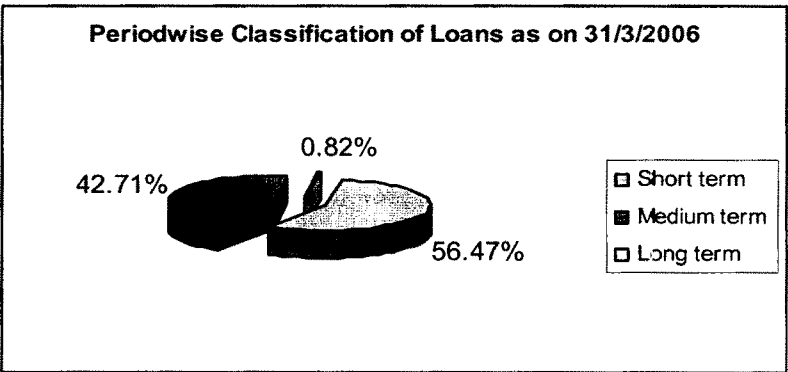
Table No. 5.9

Period wise classification of loans and advances

Year end	Short term loans		Medium term loans		Long term loans		Total
	Amount	percent	Amount	percent	Amount	percent	
2002	1698.53	49.51	1690.56	49.28	41.74	1.21	3430.83
2003	2246.04	53.29	1929.11	45.77	39.32	0.97	4214.47
2004	2417.84	54.42	1986.43	44.71	38.34	0.87	4442.61
2005	2435.67	53.12	2109.92	46.01	39.93	0.87	4585.53
2006	2702.39	56.47	2043.81	42.71	39.22	0.82	4785.41
Total	11500.47	53.59	9759.52	45.48	198.55	0.93	21458.85

Source : Annual Report of the bank (Rs. In lakhs)

Graph No.(x)



As at year end March 2006 short term loans to total loans are 56.47 %, medium term loans are 42.71% and long term loans are 0.82 %. There is increasing trend in respect of short term loans and decreasing trend of medium and large term loans. The average of last 5 years from 2002 to 2006 is in respect of short term loans 45 %, medium term loans 54 % and long term loans 1 % (approx.). Most of the loans and advances are in short

term and medium term categories and long term loan constitute very small portion of total loans and advances.

5. *Security wise Classification of Loans and Advances :-*

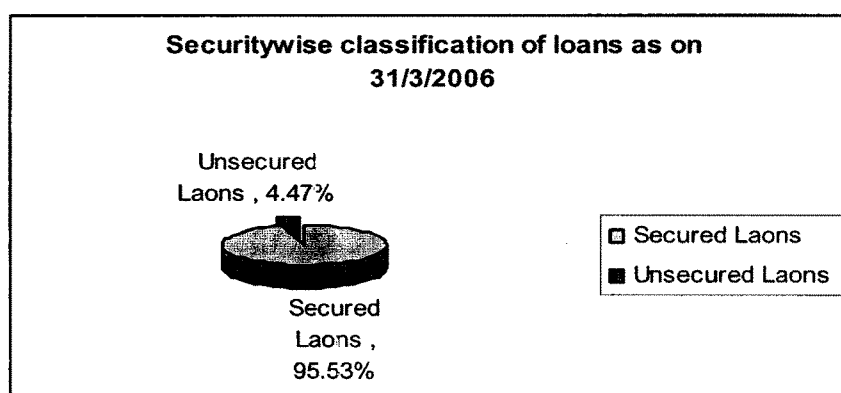
The security wise classification consist two types secured loans and unsecured loans. The bank give secured loans which are secured on the basis of immovable properties (i.e. land, house property, factory), on pledge on gold, goods, on basis of own fixed deposit certificates, on basis of machinery / vehicles / and other household commodities. The unsecured loans are simple loans, which is given on the basis of two guarantors and includes unsecured cash credit loans. Table no. 5.10 shows security wise classification of loan and advances form 31/03/2002 to 31/03/2006.

Table No. 5.10
Security wise Classification of Loans and Advances

Year end March	Secured Loans		Unsecured Loans		Total
	Amount	percent	Amount	percent	
2002	3206.82	93.47	224.01	6.53	3430.83
2003	4004.64	95.02	209.83	4.98	4214.47
2004	4232.18	95.26	210.43	4.74	4442.61
2005	4379.43	95.51	206.01	4.49	4585.53
2006	4562.26	95.53	223.15	4.47	4785.41
Avg. %	20385.43	95	1073.42	5	21558.85

Source : Annual Report of the bank (Rs. In lakhs)

Graph No. 5.(xi)



In the year ended March, 2006 secured loans as percentage to total loans are 95.53% and unsecured loans are 4.47 %. There is increasing trend of

secured loans and decreasing trend of unsecured loans. The percentage of unsecured loans are very low and also showing decreasing trend. It is a healthy sign, because if unsecured loans become NPAs, it required 100 % provision for unsecured portion of such doubtful loans and advances.

6. Performance wise Classification of Loans and Advances : -

We can bifurcate loans and advances as performing assets and non-performing assets. The performing assets are standard assets. However non-performing assets are further bifurcated as sub-standard assets, doubtful assets and loss assets. Table NO. 5.11 shows performance wise classification of loans and advances form 31/03/2002 to 31/03/2006.

Table No. 5.11

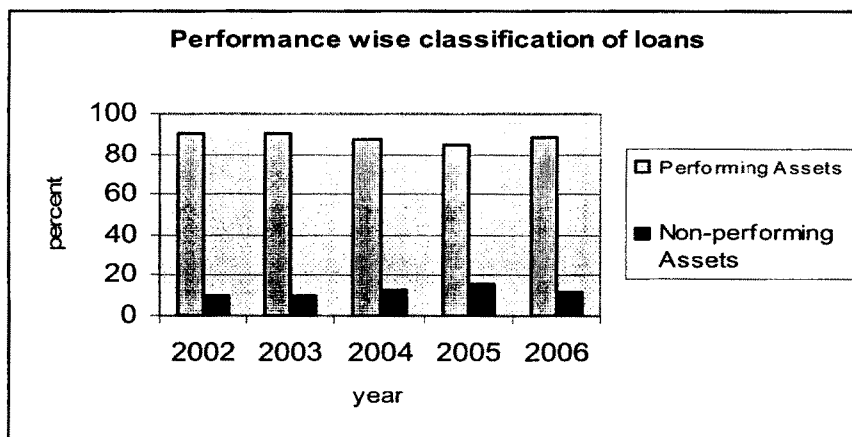
Performance wise Classification of Loans and Advances

Type of Assets	2002	2003	2004	2005	2006
A. Performing Assets	3102.57 (90.44)	3820.05 (90.65)	3874.92 (87.22)	3876.42 (84.54)	4216.27 (88.11)
B. Non-Performing Assets	328.26 (9.56)	394.43 (9.36)	567.69 (12.78)	709.11 (15.46)	569.14 (11.89)
Total Loans and Advances	3430.83	4214.48	4442.61	4585.53	4785.41

Figures in bracket are indicate percentage to total loans and advances.

Source : Annual Report of the bank (Rs. In lakhs)

Graph No.5.(xii)



There is increasing trend of non performing assets and decreasing trend of performing assets. The performing assets ratio to total assets at year end

March 2002 is 90.44 % it is decreased to 88.11 %. However non-performing assets ratio to total assets is increased from 9.56 % at year end March 2002 to 11.89 % at year end 2006.

7. *Classification of non-Performing Assets : -*

As per Table No. 5.12 Most of the NPAs of the Commercial Co-op. Bank were in sub-standard and doubtful categories. Loss assets constitute a small portion of overall NPAs. Substantial asset slippage occurred from the sub-standard assets to doubtful assets categories. At the year end March 2002 sub-standard assets ratio to total non-performing assets is 71.09 % and doubtful assets is 28.14 %. But as at year end March 2006 it is 30.77 % and 65.84 %. The sub-standard assets are decreasing and doubtful assets are increasing i.e. most of sub-standard assets are reached to the category of doubtful assets. The loss assets percentage to total non-performing assets is also increased from 0.77 % to 3.39 %.

If we compare last two year, total NPAs is decreasing from 709.10 lakhs to 569.14 lakhs. This shows the efforts made by the bank to recover NPAs and bank position is improving day by day.

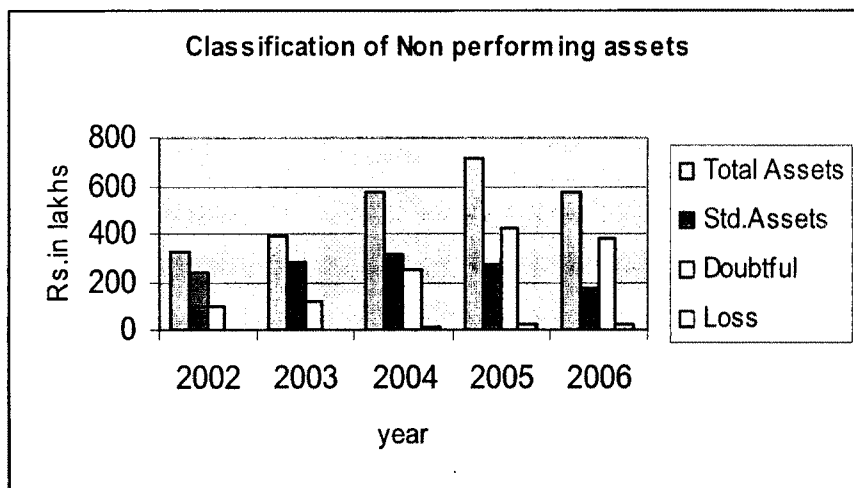
Table No. 5.12
Classification Non-Performing Assets

Non-Performing Assets	2002	2003	2004	2005	2006
1. Sub-standard Assets	233.36 (71.09)	277.90 (70.46)	310.31 (54.67)	270.51 (38.15)	175.12 (30.77)
2. Doubtful assets	92.38 (28.14)	115.22 (29.21)	244.10 (43.00)	421.52 (59.44)	374.70 (65.84)
3. Loss assets	2.52 (0.77)	1.22 (0.33)	13.28 (2.33)	17.08 (2.41)	19.32 (3.39)
Total Loans and Advances	328.26	394.43	567.69	709.10	569.14

Figures in bracket are indicate percentage to total loans and advances.

Source : Annual Report of the bank (Rs. In lakhs)

Graph No. 5.(xiii)



8. *No of borrowers in each categories of Loans :-*

As per table no. 5.13 there is continuous decrease in the no. of Accounts in respect of total no. of loans and advances, total no. of standard assets and total no of Non performing assets. The total no. of accounts decreased from 5245 at the year end March 2002 to 4033 at the year end March 2006. Similarly , standard assets and non-performing assets decreased form 4433 and 812 at the year end March 2002 to 3368 and 665 at the year end March 2006, respectively.

There is also decreasing trend of sub-standard assets. However doubtful assets and loss assets increased substantially, a trend in sympathizes with percentage of substandard and doubtful assets with total non –performing assets shown in Table No. 5.12.

Table No. 5.13
No of borrowers in each categories of Loans

Non-Performing Assets	2002	2003	2004	2005	2006
Total No of Account holders	5245	4857	4488	4165	4033
A. Standard Assets	4433	4136	3692	3441	3368
B. Non-performing Assets	812	721	796	724	665
i. Standard Assets	538	434	391	289	230
ii. Doubtful assets	269	284	391	412	411
iii. Loss assets	5	3	14	23	24
Source : Annual Report of the bank (Rs. In lakhs)					

9. Gross and Net NPAs :-

The gross NPAs of the Commercial Co-op. Bank increased both in absolute and relative terms. It was 328.26 lakhs as at the year end March 2002 and increased to Rs. 569.14 lakhs as at the year end March 2006. Similarly the ratio of gross NPAs to total advances increased from 9.56 % to 11.89 %.

The net NPAs increased in absolute term from 246.26 lakhs at year end March 2002 to 289.68 lakhs at year end March 2006. But there is decline in the ratio of Net NPAs to net advances from 7.35 % to 6.43 %.

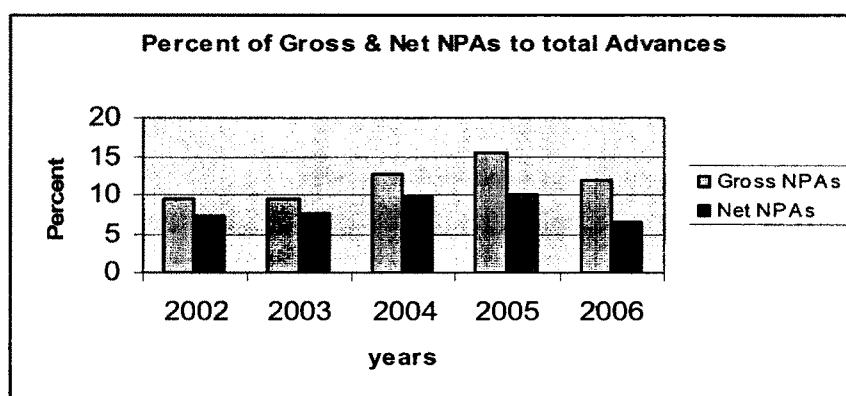
Table No. 5.14

Gross And Net NPAs as percent to Advances

Year ended on March	Gross Advances	Gross NPAs	Gross NPAs as % to Gross Adv.	Net Advances	Net NPAs	Net NPAs as % to Net Adv.
2002	3430.83	328.26	9.56	3348.83	246.26	7.35
2003	4214.47	394.43	9.36	4134.07	314.03	7.60
2004	4442.61	567.69	12.78	4287.32	412.39	9.62
2005	4585.53	709.11	15.46	4305.22	428.80	9.96
2006	4785.41	569.14	11.89	4505.95	289.68	6.43

Source : Annual Report of the bank (Rs. In lakhs)

Graph No. 5.(xiv)



If we compare last two years there is decline in both Gross And Net NPAs. The Gross NPAs declined from 15.46 % to 11.89 % and Net NPAs declined from 9.96 % to 6.43 %. This shows the efforts made by the bank during 2005-2006 to recover NPAs accounts. (Table No. 5.14)

10. Provision Made in respect of NPA :-

Following table No.5.15 state the provision made by the bank on overdue or NPA accounts

Table No.5.15

Provision made by the bank in respect of overdue & NPA a/cs

Year ended on March	Provision Required to be made	Provision at the beginning of the year	Provision During the year	Provision at the end of the year
2002	62.50	65.00	25.00	90.00
2003	74.15	90.00	--	90.00
2004	128.24	90.00	75.00	165.00
2005	172.54	165.00	125.00	290.00
2006	171.56	290.00	--	290.00

Source : Reports provided to RBI & Annual Report of the bank (Rs. In lakhs)

According to the above table, bank has made sufficient provision for each year under study. However in respect of the year end 2006 bank need not required to make any provision as there is excess provision in the previous year.

11. Recovery Of NPA

Chart No.V shows the recovery procedure of the bank in a flow chart manner. The bank has a separate recovery department. The main objective of the recovery department is to minimize NPA and recover overdue loans and advances as early as possible. There are following functions of recovery department.

- To collect information about NPA accounts and overdue loans and advances and inform to higher level management.
- Issue notices to the defaulter borrower.
- Visit the defaulter borrower, if necessary.

- Recover the Critical due amount in respect of NPA accounts and overdue amounts in respect of overdue accounts
- Select the account for One time settlement (OTS) scheme, notice to them and follow other formalities related to OTS scheme.
- Select the account for Compromise Scheme, notice to them and follow other formalities related to Compromise scheme.
- File legal suit in respect of willful defaulter.
- Follow all legal formalities related to recovery.
- Periodically compile data related to the NPA and overdue account.
- Provide necessary information as required by the board of director in their board meeting.

The recovery dept. has three clerks, one accounting clerk and two peon. There is separate committee on the recovery management called “Overdue Recovery Committee”. As on 31 March, 2006 there were following member on the board of committee, designation

Serial .No.	Name	Designation
1	S.G.Shinde	Chairman
2	S.D.Kanerkar	Vice-chairman
3	B.N.Patel	Director
4	S.J.Jadhav	Director
5	V.A.Desai	Director
6	V.D.Jadhav	Director

Source : Annual Report of Bank.

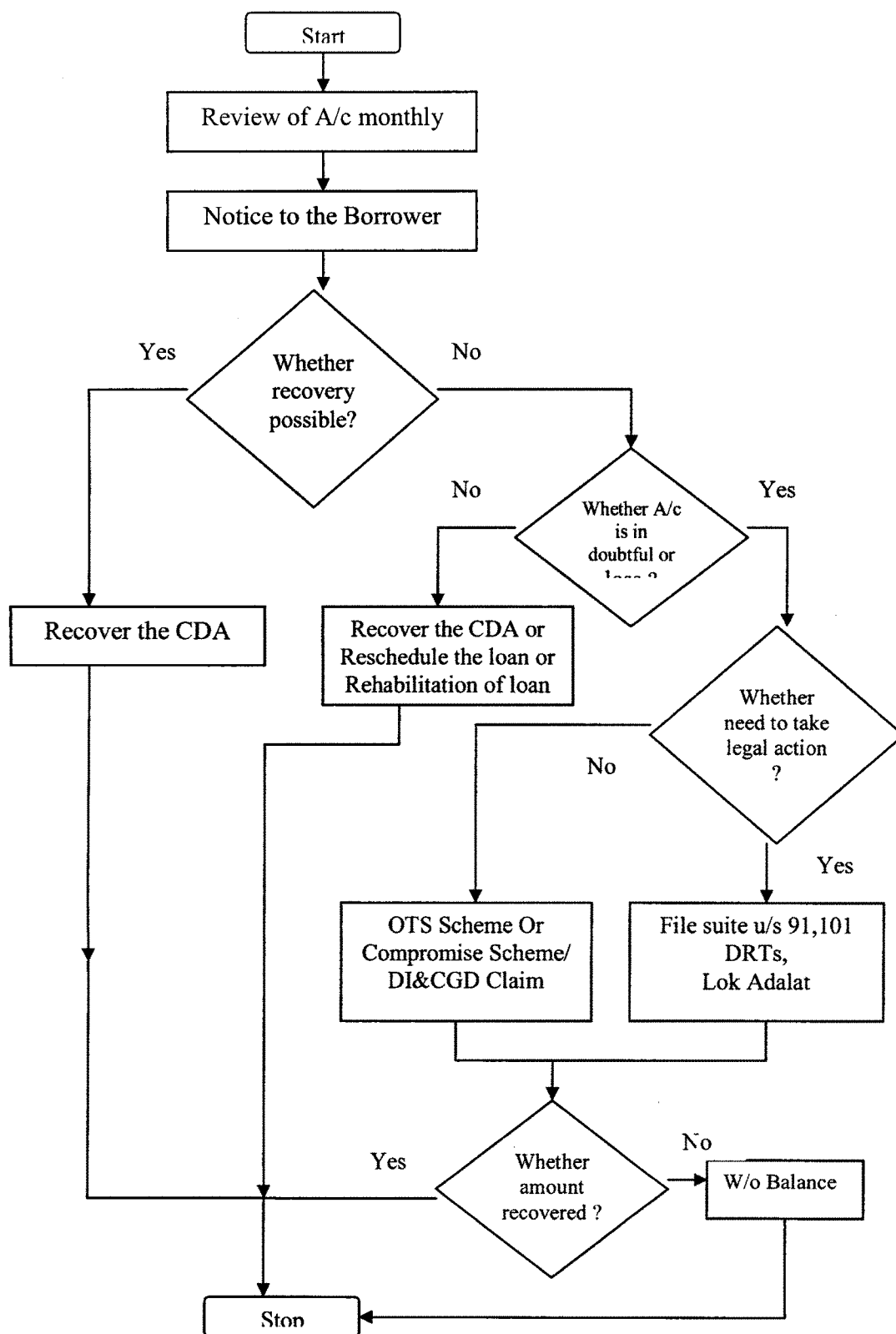


Chart No. V
Recovery Procedure of the bank

The recovery department periodically submits information about status of NPA account and overdue accounts to the committee. And the committee takes decision to expedite the recovery procedure. Following table shows the no. of meeting held during period under study.

Table No 5.16
No of meeting held of Recovery Dept.

Year ended on	No. of meeting held
31/03/2002	13
31/03/2003	12
31/03/2004	12
31/03/2005	12
31/03/2006	12

Source : Annual Report of the bank

11.1 Internal control procedure in respect of recovery of NPA :

The bank has made substantial change in their recovery procedure form last two years. There is segregation of work related to recovery and whole staff are assigned the work related to recovery of NPA in a systematic manner. Following is the internal control policy of the bank in respect to recovery.

1. The manager of each branch should assign 10 to 12 accounts to each clerks. They should sent notice and also visit personally to the defaulter.
2. The manager and supervisor should himself review top 20 A/c (for the branch of Shahupuri and Tarabai road 30 A/c) related to NPA or overdue
3. Draw a complete format in respect of the recovery of NPA and overdue amount and follow the plan accordingly.

4. The bank manager will forward the status of NPA accounts along with the staff, to whom the A/c are allotted, to the head office within 10th day of the following month.
5. Each staff should be given a dairy (Note Book) to follow up the A/c and each of them should record the recovery status in that dairy.

Format of Particulars in the Dairy of staff

No. of A/c		Overdue Amount		Recovered Amount	
Last Month	Current Month	Last Month	Current Month	Last Month	Current Month

6. If the NPA A/c of the particular branch are less in no. as compare to available staff of that branch, then branch manager of that branch will follow/ take the NPA A/c of other branch which have excess burden of NPA A/c.
7. The bank staff should present their dairy to the supervisor. Supervisor should make a report and forward it to the branch manager.
8. The branch manager will forward the monthly report to the head office within 10th days of following month.
9. The branch manager should control the work assigned to the staff and supervisor. He is also responsible for co-ordination between supervisor and other staff.

10. If recovery of any staff is not satisfactory then branch manager of that branch should report to C.E.O. and Asst. manager of the bank.
11. The overdue A/c of Rs. 25,000 or above and NPA A/c of Rs. 5,00,000 should be reviewed by the branch manager and supervisor themselves.
12. The branch manager should co-ordinate with the recovery dept. of the head office and complete various formalities as required by head office from time to time.
13. Sent notice / reminder to the following borrower
 - CC/OD A/c not having sufficient transaction.
 - CC / OD A/c become NPA due to interest.
 - CC / OD A/c on which period is expired
 - Loan against gold and Fixed deposit whose period is expired
 - Non submission of Stock statement.

11.2. Periodical Reports about NPA and Overdue A/c. :

To reduce NPA level, it is necessary to know the position of the loans and advances. Accordingly they extract following information form their books of accounts

- Monthly status about NPA A/c along with CDA
- A/c become NPA after one installment.
- Defaulter list for O/s Rs. 3,50,000 & overdue > 3 installment.
- Loan sanctioned > Rs. 1,00,000.
- Sanction Limit expiry listing for 301, 302, 303.
- Defaulter list for 601 & 602
- Overdue list 301, 302, 303.
- Overdue amount > 25,000.
- Maturity Pattern Loan
- GL & PL of all branch & consolidated

- Expiry Loan against gold
- Expired Loan against deposit
- Expired Loan against CC
- Expired Loan against OD

Name of the Staff :- _____
Branch : - _____

Signature _____

11.3 Movement of NPA :

Following Table No. 5.18 shows movement of NPA. This calculation is done only in respect of RBI inspection so figures are available only for some years i.e. form 01/04/2002 to 31/03/2005. Bank is not able to provide information for the next two years .

Table No.5.18
Movement of NPA

Year ended on March	Amount of NPA at beginning	Per cent	Recovered out of NPA during the year	Per cent	Addition of NPA during the year	Per cent	Amount of NPA as at the end of the year	Per cent
2002	328.26	100%	190.64	58%	256.81	78%	394.43	120%
2003	394.43	100%	364.37	92%	537.63	136%	567.69	143%
2004	567.69	100%	485.94	86%	627.63	110%	709.11	125%

Source : Special Report made to RBI at the time their inspection .
(date for the year 2004-05, 2005-06 is not available)

Above table shows that, bank is able to recover only 58 % of NPA during the period 2002-2003 out of NPA of previous year. There is substantial improvement in recovery during the year 2003-2004 and it is 92 % of the NPA during the previous year. For the year 2004-2005 there is slightly decrease in recovery and it is 86 % of amount of NPA at the beginning of the year.

Though the recovery of NPA of previous year is grater, there is also increase in the NPA during the year so overall NPA is increased for each year under study.

11.4. Recovery of NPA through OTS / Compromise Scheme : -

The bank is trying to minimize its NPA through obtaining the benefit of OTS scheme or compromise scheme. The RBI is declared OTS scheme. The guidelines will apply to all NPAs, which have become doubtful or loss A/cs as on 31 March, 2001 with outstanding balance or RS. 10 crore and below on the cut off date. The guideline also cover NPAs subsequently

become doubtful or loss. The OTS Scheme is applicable to UCBs only upto 30/06/2007. And only upto 30/06/2007 the UCBs can accept application under OTS and declare the result on such application upto 30/0/2007. The OTS Scheme is applicable only to those A/c become doubtful as on 31 March 2001. Also this scheme is not applicable after 30/06/2007 to UCBs. But the Compromise Settlement Scheme is applicable to all A/c those have become doubtful or loss as on 31 March 2005.

The compromise scheme is not applicable to case of willful, frauds and malfeasance, loan availed of or guaranteed by directors or by close relatives of directors, and loan above 10 crore.

Under this scheme the bank can waived the penal interest, legal charges, postage and other charges but cannot waive the advertisement charges.

The bank has a separate committee in respect of settlement of case through OTS / Compromise Scheme. The bank select the borrowers to whom the scheme is applicable, give notice to such to borrowers intimating them that they can avail the benefit of the scheme. There after the borrower approaches to the bank. Then bank calculate the amount required to be paid by the borrower as per the scheme and settle the case.

The member of the OTS Scheme is as follows

Serial .No.	Name	Designation
1	S.G.Shinde	Chairman
2	S.D.Kanerkar	Vice-chairman
3	B.D. Sawant	Director
4	R.S. Mohite	Director
5	B.R. Mohite	CEO
6	D.B. Ingawale	Accountant

Source : Annual Report of Bank.

The bank has sent notice to 14 borrowers in the year 2004-05 and to 29 borrowers in the year 2005-06 out of that 14 members and 13 members was applying for the scheme respectively.

Following table No. shows overdue and recovery under OTS Scheme

Table No. 5.19

Overdue and recovery under OTS Scheme

Year ended on March	No of Borrowers	Overdue	Recovery	Adjusted to account
2002	--	--	--	--
2003	--	--	--	--
2004	--	--	--	--
2005	14	10.87	6.70	4.17
2006	13	2.25	1.55	0.70

Source : Minutes of the OTS committee meeting & Other record of the bank .

In the year 2004-05, 14 borrowers are availed the benefit of the OTS scheme. Total overdue amount of such A/c is Rs.10.87 lacks out of that bank able to recover Rs.6.70 lacks and make adjustment in the books of A/c of Rs.4.17 lacks. Similarly in the year 2005-06 , 13 borrowers is applying for the scheme. Total overdue amount is Rs. 2.25 lacks out of that bank is able to get Rs.1.55 lacks and Rs. 0.70 lacks are adjusted to the books of A/c.

In the year end 2006 the no. of borrowers and overdue amount standing to credit of them is less as compare to last year but recovery as percentage to overdue a/c is increased. In 2004-05 bank is able to recover 61 % of overdue amount and in the year 2005-06 it recovers 69% of overdue amount.

11.5. Recovery through filing suit u/s 91, or 101 : -

The bank file legal suit u/s 91 or u/s 101 in respect of willful defaulter or where the recovery is not possible through OTS or Compromise scheme. The recovery department is responsible for completing all responsibility related to issuing notice, visiting the defaulter, filing legal suit. The bank has Advocate to

look the legal formalities. Following Table No.5.20 shows the recovery made by the bank through filing legal suits

Table No. 5.20
Recovery through filing suit u/s 91/ 101

Year end	No of Borrowers	Recovery
2002	160	60.08
2003	149	40.93
2004	106	100.55
2005	213	111.01
2006	108	128.68

Source : Minutes of the OTS committee meeting & Other record of the bank

On the basis of above information it is seen that now a days the bank has a sound recovery management system. In the initial period under study the recovery of NPA was not satisfactory as the NPA percentage is increasing. But the bank Assistant manager form a strong and efficient recovery management policy in the two last year. It cover the whole staff of the bank. The work related to recovery is systematically assigned to the staff and there is proper co-ordination with management. Due to proper segregation of the work it is easy to bank to follow the borrowers regularly. As a result of this bank NPA is decreasing from 15.46 % to 11.89 % during the year end March 2006.

C) Causes : -

The researcher interviewed the bank officials to find out the reason caused for increasing NPAs. The reasons reported by respondents are more or less applicable to all co-operative banks. Following are the reason / causes of NPAs of Co-operative banks including The Commercial Co-operative Bank Ltd. Kolhapur.

1. Faulty Appraisal System : -

The growing rate of NPAs of Co-operative banks are the result of poor credit decision by bank management. The banks have not developed any formal risk rating system to assess the risk of lending. Generally BOD scrutinize the loan application and make decision. BOD have experience but do not have professional knowledge. As against there should be professional competent persons to evaluate the credit worth of borrowers and its repayment capacity. For example, Chartered Accountant for financial evaluation, Advocate for legal matter. Due to poor appraisal system there is possibility of become account NPA.

2. Lack of Professionalism : -

It is observed that with respect to lending of co-operative banks, there is lack of professionalism and market expertise. The humanitarian considerations are given more important than pure business consideration. Since the borrowers are in close contact with the bank and BOD, the loan proposals are guided more by faith on borrower, reliance, confidence and reputation of borrower. Sometimes it will deteriorate the quality of advances. Obviously result of these erroneous decisions is increase in the NPAs. What was expected of the banks is the rationality in bearing the risk, but the banks seems to have failed in this regard.

3. Inadequate Monitoring System : -

The bank should closely monitor individual loan accounts. At least per quarter, bank should see the position of accounts who are in NPAs to performing asset / standard asset. But existing machinery is not adequate to keep constant watch on borrowers account. Some loans are become NPAs due to non – recovery of negligent amount say Rs. 50 to 100 and due to this level of NPAs is increased and bank has to make huge amount of provision.

4. Legal and Procedural Obstacles :

Time consuming process of court added fuel to the fire as the recovery is delayed and NPAs grow. The process of debt recovery which was available to the bank till recently viz. referring the case of default etc to a semi judicial body (Board of Industrial and Financial Reconstruction) BIFR , has been found to be time consuming, hence not much effective. The rout of Corporate Debt Restructuring (CDR) introduced in August 2001 has been a voluntary and non – statutory mechanism which does not have sufficient teeth or status. Pannir Selvam Committee of IBA on NPAs clearly brought out that it takes decades for courts to decide cases and even after decrees are obtained execution of decrees is virtually on important task.

5. Competition :

The co-operative bank has to face competition from two sides i.e. from Commercial Banking sector and UCBs . Now a days the commercial banks (i.e. Schedule Commercial Banks, Public Sector Banks, Private Sector Banks, Foreign Banks) provide various facilities, which is not possible to the co-operative banks. They are not only concentrate on industrial financing but now also finance to the needs of bottom level of public, where co-operative banks were the only source. They are successful in attracting borrowers. So the co-operative banks

has to liberalise its policies. Another reason is that those borrowers who have not got loan from these banks approach to the co-operative banks. Since the credit worthiness of these borrowers are weak, there is possibility of becoming NPAs. The banks also face competition with local area UCBs. To compete with them or to increase loans and advances, bank adopted aggressive or liberal credit policy which is result in to increase of NPAs.

6. Natural Calamities : -

Natural calamities are the perpetual problem of Indian economy are also the perpetual cause of NPA. And any risk management related to NPA has to be with full understanding of these traditional hazards. For example, recent earth quake in Maharashtra and Gujarat, super cyclone in Andhra Pradesh or floods in Bihar and Maharashtra and above all the uncertainty of rains. Such situation create a feeling of insecurity and entrepreneurial enthusiasm is lost. In respect of the Commercial Co-operative Bank Ltd. the area of operation is Kolhapur district. In Kolhapur District the problem of flood and “Lokari Mawa” affects bank from last two or three years.

7. Income Generation Capacity Vs. Security : -

The bank sanction loan on two basis. One is income generation capacity of the borrower and another is security given in respect of loan. The BOD gives more emphasis in respect of security rather than income generation capacity of borrower. They insure that they have sufficient security in the nature of gold or house property or land. And think that if borrower fail to pay then they will recover the loan by means of these securities. But due to insufficient income generation capacity it disturbs the recovery schedule and result into increase of NPAs and bank also have to make provision on such overdue accounts.

8. Willful Defaulters : -

Some borrowers of the bank are willful defaulters. They deliberately defaulted in payment of interest and repayment of principal amount. Sometimes borrowers gives priority to settle other debts and repay to bank if remain something with them. The default friendly law have been instrumental for developing this kind of tendency among the borrowers.

9. Diversion of Funds : -

Another important cause of NPAs is diversion of funds. In many cases funds were borrowed for business purpose but actually were utilized for personal consumption. If loan is sanctioned for productive purpose and utilized for non-productive purpose, then it will affect the income potential. Which will result in increase of NPAs.

10. Industrial Recession : -

Industrial recession may cause to become the unit sick. It affects the demand for product. It is result in reduction of production and ultimately the employment opportunities. Due to reduction in demand the huge unsold stock increases the operating cost, results in low income and the borrowers are caught in the loan trap. The industrial recession affects SSI at large extent. E.g. Automobile industry affects many small units. In this period large corporate units usually delayed payment to SSI and contributed indirect to NPA of SSI units.

11. Inefficient Staff : -

Generally top level management determines various strategies, policies, internal control procedure etc. to manage the NPAs. But sometimes it is not followed by staff of the banks. So following are some causes which more or less results to become a A/c NPA.

- i) Not reporting timely the condition of NPA to H.O.

- ii) Lack of initiative to take timely action against recovery of loan. Staff wait even after due dates which is result in increase in NPA level.
- iii) Security given by borrower is not verified from time to time i.e. in case of Hypothecation of goods, machinery etc.
- iv) The security given by borrower is not insured
- v) Accounts are not renewed within time in case of cash credit or overdraft accounts.
- vi) In case of second hand vehicles loans or machinery loan, its valuation is not done through authorised valuator.
- vii) Not follow the rules, regulations, internal control procedure prescribed by the management.

12. Other External Factors :

These factors generally affect industries or business, which automatically influence the NPAs of banks. They are,

- i) Fluctuation / shortage of supply of raw material
- ii) Shortage of power
- iii) Price escalation
- iv) Market volatility
- v) Outdated or obsolescence in technology.
- vi) Government regulations
- vii) Non-release of subsidy in time
- viii) Deficiency in demand
- ix) Deliberate efforts by borrower to declare the unit sick to enjoy benefits form different schemes
- x) Labour unrest.

D) Preventive Remedies to Control NPAs : -

1. Systematic appraisal system : -

If bank advances loan to the wrong person, they will have to put lots of efforts, manpower, time and money to recover such types of loans. Such poor loans increase the level of NPAs. So firstly bank should follow a systematic appraisal system. For this purpose the bank should form a scrutiny committee having experts e.g. Chartered Accountants, Advocates, Valuers. Such committee first evaluate the proposals and give their recommendations to the BOD and then BOD will determine whether to sanction loan or not. To avoid the bias, personal or relationship influence, the bank should form rules and regulations in respect of each type of loan and these rules should be documented and properly followed.

2. Qualified and trained Human Resources :

The bank should recruit qualified staff and train the staff about how to manage NPAs. Some accounts become NPAs because of unawareness of the staff about various factors responsible for it. Development of effective HRD system not only help to reduce NPAs but also help to maintain healthy relation with the members. The change in attitude, approach and work style will definitely help to minimize the problem pertaining to credit risk.

3. Improve Supervision : -

The bank should follow up borrowers both the times at pre-sanction and after sanction of loan. It can prevent performing assets getting transferred into NPAs. The follow up should be regarding repayment of installment, payment of interest, turnover on cash credit A/c, submission of stock statements, proper use of funds by borrower, financial position i.e. trend of sales, various ratios, position of income etc.

4. Separate recovery department : -

For managing the NPAs A/c there should be separate recovery dept. The recovery of bank loans depend on the involvement, follow up and effectiveness of recovery dept. But many times UCBs don't have independent recovery dept. The work load of recovery is on the shoulders of the managers and staff. Such managers and staff have their regular work load, so they can't pay proper attention for recovery or follow up procedure. There should be proper segregation of work. Where full time employee have to be appointed to follow up accounts, give notice and reminder letters, approach to borrowers, recover amounts and take legal actions.

5. Recover the Critical Due Amount (CDA) :-

The bank should calculate NPAs performance monthly and recover CDA. Specifically at Sept. end (because for UCBs, assets consider NPA if interest or installment of principal or both remain unpaid for more than 180 days) bank should calculate and inform CDA to the borrower and ask to repay at least that much of amount , to avoid it to become account NPA A/c. If we recover CDA as on Sept. then reporting figures of NPAs at the year end will be minimized which will increase the public confidence.

6. Outsourcing the recovery activity : -

The bank can manage the NPAs effectively by outsourcing the recovery activity. Where bank can hire any agency and handover the work of recovery on commission basis. By doing this, bank can concentrate their efforts on other core banking activities. Due to segregation of work the task of recovery will be speedy and will result in reduction of NPAs level.

7. Restructuring of loan A/c :-

Restructuring of loan arrangement in respect of standard and sub-std.(sub-standard) A/c can take place at three stages viz. a) before commencement of commercial production b) after commencement of commercial production but before the asset has been classified as sub-standard c) after commencement of commercial production and assets has been classified as sub-std.

A rescheduling of interest or installment of principal alone would render a sub-std. asset eligible to be continued in sub-std. category for specified period. So it will not reduces NPA immediately but facilitate to reduce the level of NPA in near future.

8. Rehabilitation support :-

The unit can be revived by providing financial supports, like additional facility, concession in various charges. As soon as unit is declared sick rehabilitation programmes comes into the forefront. In view of the RBI norms, banks/FIs, are required to be in line with norms as for as rehabilitation/ relief/ concessions etc. are concerned. It is established fact that unit which are taken up under rehabilitation programmes are chronic cases having suffered losses, erosion in net worth etc.

9. One Time Settlement (OTS) :-

RBI declared OTS scheme to minimize level of NPAs. The guidelines will apply to all NPAs in all sectors irrespective of the nature of business/ activity/ purpose of advance, which have become doubtful or loss as on 31 March, 2001 with outstanding balance or RS. 10 crore and below on the cut off date. The guideline also cover NPAs subsequently become doubtful or loss. The OTS Scheme is applicable to UCBs only upto 30/06/2007. Only upto 30/06/2007 the UCBs can

accept application under OTS and declare the result on such application upto 30/0/2007.

10. Compromise Settlement Scheme : -

The OTS Scheme is applicable only to those A/c which become doubtful as on 31 March 2001. Also this scheme is not applicable after 30/06/2007 to UCBs. But the Compromise Settlement Scheme is applicable to all A/c which have become doubtful or loss as on 31 March 2005.

This scheme is not applicable to cases like of willful defaulters, frauds and malfeasance, loan availed of or guaranteed by directors or by close relatives of directors, and loan above 10 crore.

Under this scheme the bank can waived the penal interest, legal charges, postage and other charges but cannot waive the advertisement charges.

Settlement Formula under this scheme

Outstanding balance in the account as on the date on which the account was categorized as doubtful or loss asset, whichever happened earlier, as the case may be	X X X X
Add : minimum interest rate fixed by the bank from date of asset categorized as doubtful to date of final payment	X X
(The int. rate is the rate decided by the bank which is not less than last years rate of deposit and not more than prime lending rate)	X X X X
Amount to be settled	
<u>Particulars of amount to be settled :</u>	
i) 5% of outstanding balance along with application form	X
ii) 25% of amount of settlement minus above amount within 30 days of intimation letter by bank	X X
iii) 75% of amount of settlement within next 30 days	X XX

11. Recovery through Credit Insurance : -

The bank can insure large loans and advances. The cost of credit insurance may be shared by bank and borrower in agreed proportion. One to the credit insurance scheme is DI&CGC. The bank should load the eligible claims to DI&CGC as early as possible. On receiving the claim necessary prompt procedure should be adopted to write off the balance.

12. Lok Adalat : -

Due to time consuming legal procedure, this has to be treated as the last remedy. The suites are filed in respect of chronic NPAs where CDA is very high or in respect of willful defaulters. With regards to Lok Adalat Guidelines were issued to banks and FIs in 2001 indicating that,

- Ceiling of amount for coverage under Lok Adalats would be Rs 5 lakhs
- The scheme may include both suit-filed and non suit-filed accounts in doubtful categories and
- The settlement formula must be flexible

Furthermore, DRTs have been empowered to organize Lok Adalats to decide on cases of NPAs of Rs. 10 lakhs and above.

13. Debts Recovery Tribunals (DRTs) : -

The Recovery of Debts Due to Banks and Financial Institutions Act 1993 was enacted to provide for the establishment of Tribunals for expeditious adjudication and recovery of debts due to the banks. The Central Govt. has powers to establish DRTs. In Maharashtra three DRTs have been established one each at Mumbai, Pune and Aurangabad. The Debts Recovery Appellate Tribunal (DRATs) is at Mumbai. It dispose the cases within 180 days of its filing. At present there are 29 DRTs and 5 DRATs.

13. SARFAEST ACT :-

The Debt Recovery Tribunal Act 1993, enable the banks / FIs to file an application in the DRTs towards recovery of amount from lender. There are several additional provisions in the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI ACT), which are as under,

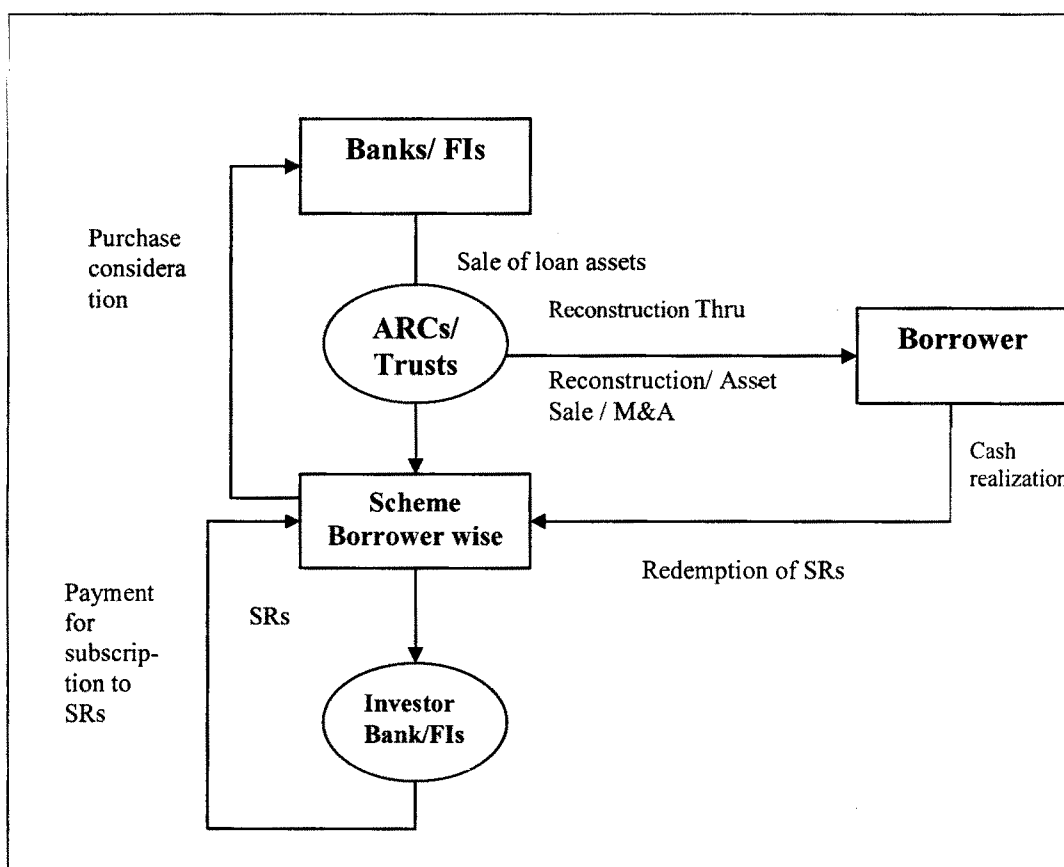
- a) Take possession of the secured assets of the borrower including the right to transfer by way of lease, assessment or sale for realizing the secured assets.
- b) Take possession of the management of secured assets of borrower
- c) Appointment any person to manage the secured asset, the possession of which has been taken over by the secured creditors
- d) Registration and regulation of Securitization Companies/ Reconstruction Companies by the RBIs.

Asset Reconstruction Companies (ARCs): - Asset Reconstruction Company (ARCs) registered under Section 3 of SAFESI Act. In accordance with the Act and RBI guideline, ARCs can acquire the FAs of NPAs bank on their own balance sheet or through the trust structure by flotation of schemes for arising resources through issuance of Security Receipts (SRs) from QIBs. The trust structure for acquisition and resolution of NPAs is preferred structure by the investors and in generally in line with the international practices. The detail transaction structure adopted by ARCs are as follows,

- ARCs sets up a trust for purpose of acquiring NPAs on the books of bank (Assets).

- The Assets would be acquired at fair value based on assessment of realizable amount and time to resolution.
- The trust raises resources through formulation of scheme by issuing Security Receipts (SRs) from QIBs. Such amount are utilized towards payment of purchase consideration for the Financial Assets (FAs) to the sellers.
- The Trust is the legal owner of the Assets and the SR holders are beneficial owners of the same. Security Receipt represents undivided right, title and interest in the Trust Fund, including the Initial Trust Fund, the Contributions received by the Trustee, the Assets proposed to be acquired by the Trustee. The SRs are akin to Pass-through Certificates (PTCs)
- At the time of redemption of SRs excess of realization over face value of SRs after providing for return is shared with SRs holders.

Chart No.VI Transaction Structure of ARCs



Source : Institute of Chartered Accountant General