



*Journal of Advances and
Scholarly Researches in
Allied Education*

*Vol. VIII, Issue No. XVI,
Oct-2014, ISSN 2230-7540*

**MANAGEMENT OF NON-PERFORMING ASSETS
AND TERMS OF CREDIT OF PUBLIC SECTOR
BANKS IN INDIA: A CURRENT SCENARIO**

AN
INTERNATIONALLY
INDEXED PEER
REVIEWED &
REFEREED JOURNAL

Management of Non-Performing Assets and Terms of Credit of Public Sector Banks in India: A Current Scenario

Nethravathi TD

Research Scholar, Bundelkhand University, Jhansi, UP

Abstract – Indian banking system has gone through significant transformation following financial sector reforms. Several prudential, payment, integrating and provisioning norms have been introduced to improve efficiency and trimming down the NPAs to improve the financial health of the banking sector. In this paper we explore an empirical approach to the analysis of commercial banks' nonperforming loans (NPLs) in the Indian context. The empirical analysis evaluates as to how banks' non-performing loans are influenced by three major sets of economic and financial factors, i.e., terms of credit, bank size induced risk preferences and macroeconomic shocks.

Keywords: Nonperforming Assets, Bank Credit, Banking Sector, Customer, And Loss Asset, Financial Sector

-----X-----

INTRODUCTION

Non-Performing Asset means a loan or an account of borrower, which has been classified as a sub-standard, doubtful or loss asset, in accordance with the directions. Among various indicators of financial stability, banks' non-performing loan assumes critical importance since it reflects on the asset quality, credit risk and efficiency in the allocation of resources to productive sectors. A common perspective is that the problem of banks' non-performing loans is ascribed to political, economic, social, technological, legal and environmental factors across countries (2003, Bhide, et.al. 2002, Das and Ghosh).

REVIEW OF LITERATURE:

In the banking literature, the problem of NPLs has been revisited in several theoretical and empirical studies. A synoptic review of the literature brings to the fore insights into the determinants of NPL across countries. A considered view is that banks' lending policy could have crucial influence on non-performing loans (Reddy, 2004).

Reddy (2004) critically examined various issues pertaining to terms of credit of Indian banks. In this context, it was viewed that 'the element of power has no bearing on the illegal activity. A default is not entirely an irrational decision. Rather a defaulter takes into account probabilistic assessment of various costs and benefits of his decision'. Mohan (2003)

conceptualized 'lazy banking' while critically reflecting on banks' investment portfolio and lending policy.

In a study of institutional finance structure and implications for industrial growth, Mohan (2004) emphasized on key lending terms of credit, such as maturity and interest-terms of loans to corporate sector. The Indian viewpoint alluding to the concepts of 'credit culture' owing to Reddy (2004) and 'lazy banking' owing to Mohan

(2003) has an international perspective since several studies in the banking literature agree that banks' lending policy is a major driver of non-performing loans (McGoven, 1998, Sergio, 1996, Bloem and Gorters, 2001).

Banking Sector Reforms and NPA:

In India due to the social banking motto, the problem of bad loans did not receive priority from policy makers initially. However, with the reform of the financial sector and the adoption of international banking practices the issue of NPAs received due focus. Thus, in India, the concept of NPA came into the reckoning after reforms in the financial sector were introduced on the recommendations of the

Report of the Committee on the Financial System (Narasimham, 1998) and an appropriate accounting system was put in place.

Management of Non-Performing Assets:

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the banks have become very cautious in extending loans, the reason being mounting non-performing assets (NPAs). An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. As per the prudential norms suggested by the Reserve Bank of India (RBI), a bank cannot book interest on an NPA on accrual basis. In other words, such interests can be booked only when it has been actually received. Therefore, this has become what is called as a 'critical performance area' of the banking sector as the level of NPAs affects the profitability of a bank.

CONCLUSION:

The NPA is the root cause of the global financial crisis that we observed recently. The world is still trying to recover from the after-effects of the crisis. The problem of NPA has received considerable attention after the liberalisation of the financial sector in India. Accounting norms have been modified substantially and mechanisms are in place for reduction of bad loans. Our discussions with banks, however, show that such decline is mainly due to the awareness of the problem of bad loans at the bank level (Rajeev and Mahesh, 2007, Meenakshi Rajeev, H P Mahesh 2010).

REFERENCES:

- Bloem, A.M., and Cornelis N. Gorters, (2001) 'The Macroeconomic Statistical Treatment of Nonperforming Loans', Discussion Paper, Statistics Department of the International Monetary Fund, December 1, 2001
- Reddy, Y.V., (March, 2004), "Credit Policy, Systems, and Culture", Reserve Bank of India Bulletin.
- Mohan, Rakesh (2003), 'Transforming Indian Banking: In Search of a Better Tomorrow', Reserve Bank of India", Speeches, Reserve Bank of India Bulletin, January.
- Mohan, Rakesh (March, 2004), 'Finance for Industrial Growth', Reserve Bank of India Bulletin, Speech article.
- McGoven, John (1998), 'Why bad loans happen to good banks', The Journal of Commercial Lending. Philadelphia: Feb 1993. Vol. 75, Issue.
- Sergio, M, (1996), 'Non-performing bank loans: Cyclical patterns and sectoral risk',

Review of Economic Conditions in Italy. Rome: Jan-Jun 1996. , Issue.

- Narasimham, M (1998). Report of the Committee on Banking Sector Reform. Mumbai: Reserve Bank of India.
- Rajeev, Meenakshi and H P Mahesh (2007). Assets as Liabilities: Non-Performing Assets in Commercial Banks of India. Research Monitor, Global Development Network, 3: 17-19.
- Meenakshi Rajeev, H P Mahesh "Banking Sector Reforms and NPA: A study of Indian Commercial Banks,2010" ISBN 978-81-7791-108-4