



Mahendra's

WEEKEND SPECIAL

GA

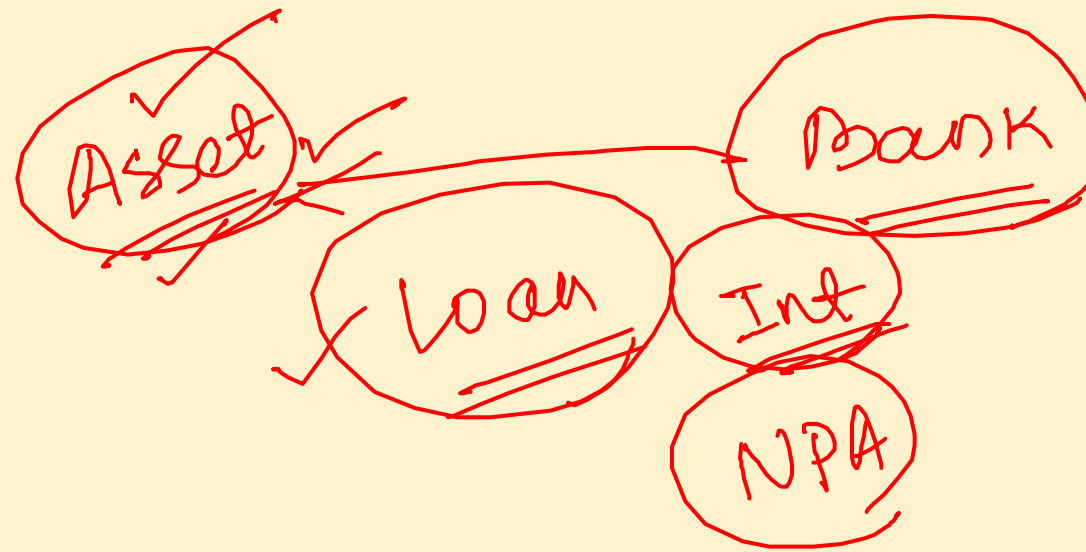
NPA

LIVE

30 JAN

01:45 PM





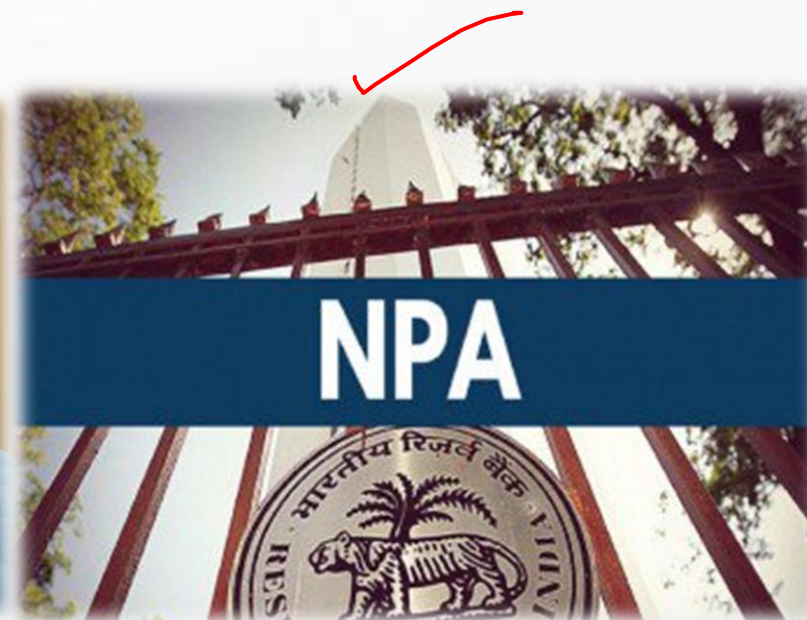
NON PERFORMING ASSETS

If the assets of the bank are not generating any income or if the loans & advances are over due for a period of more than 90 days, then it is known as NPA



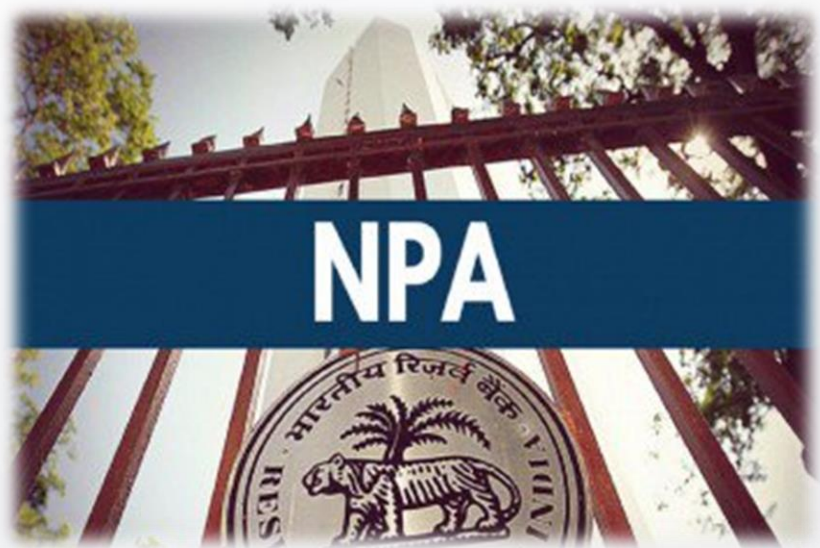
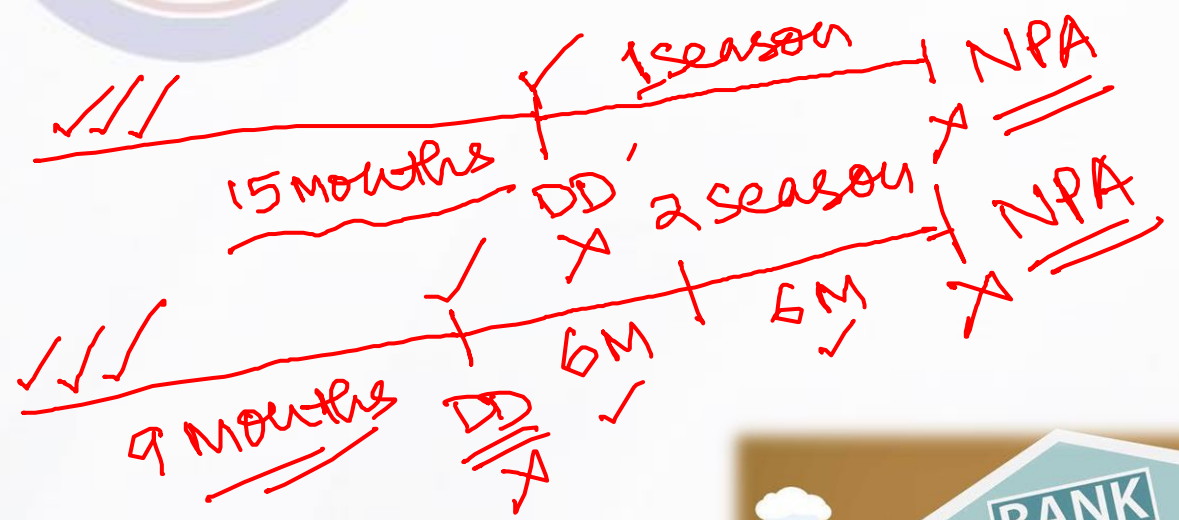
Bad Debts / sticky loans /
Doubtful Debts / Toxic Assets.

Due Date



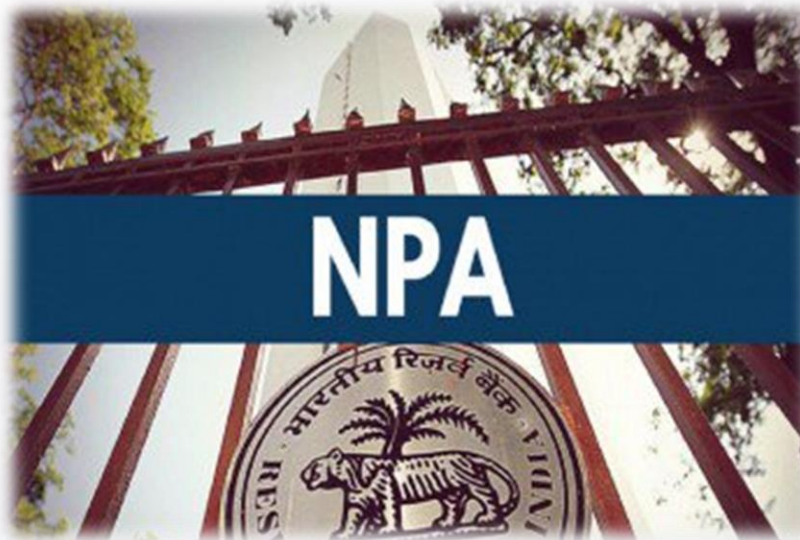
Exception in case of crop loans → one time settlement

- ✓ If a crop is a long term crop or one year crop then one more crop reason from the due date & after that bank will declare it as NPA.
- ✓ If a crop is a short term crop or 6 months crop then two more crop reason from the due date & after that bank will declare it as NPA



Causes of NPA

- Default → Default by the borrower.
- Economic Conditions → Natural calamities.
- No more proper Risk Management : Sub-Prime Lending
- Mis-management : Bribes
- Diversion of Funds :





Loan – Asset for the Bank

Due Date X

Loan Installment Repayment overdue for 1-90 days – Standard Asset

SMA - special mention AIC

- If loan repayment is overdue for more than 1 day to 30 days from the due date – SMA0
- If loan repayment is overdue for more than 31 days to 60 days from the due date – SMA 1
- If loan repayment is overdue for more than 61 days to 90 days from the due date – SMA 2



Repayment overdue > 90 days = NPA

Sub standard NPA/Asset

> 90 days & upto 1 year

Doubtful NPA/Asset

> 1 year - DA 1
> 2 year - DA 2
> 3 year - DA 3

4 yrs
or

Asset Loss NPA

Declared as irrecoverable by the internal or external auditors of the bank or by RBI inspection team

Loan - Asset for the Bank

Standard Asset → 0.25-1. → Agri. & SME Loans
Housing Loans (commercial) → 1-1.
" (personal) → 0.75-1.

Reserve / Provision → Profit
All other Loans → 0.4-1. ✓

**Repayment overdue > 90 days =
NPA**

**Sub standard
NPA/Asset**

✓ SL - 15-1.
✓ UL - 25-1.

> 90 days & upto 1 year

**Doubtful
NPA/Asset**

> 1 year - DA 1 → 25-1.
> 2 year - DA 2 → 40-1.
> 3 year - DA 3 → 100-1.

**Asset Loss
NPA**

Declared as irrecoverable by the internal or external auditors of the bank or by RBI inspection team

① Written off ✓
OR
② 100% ✓

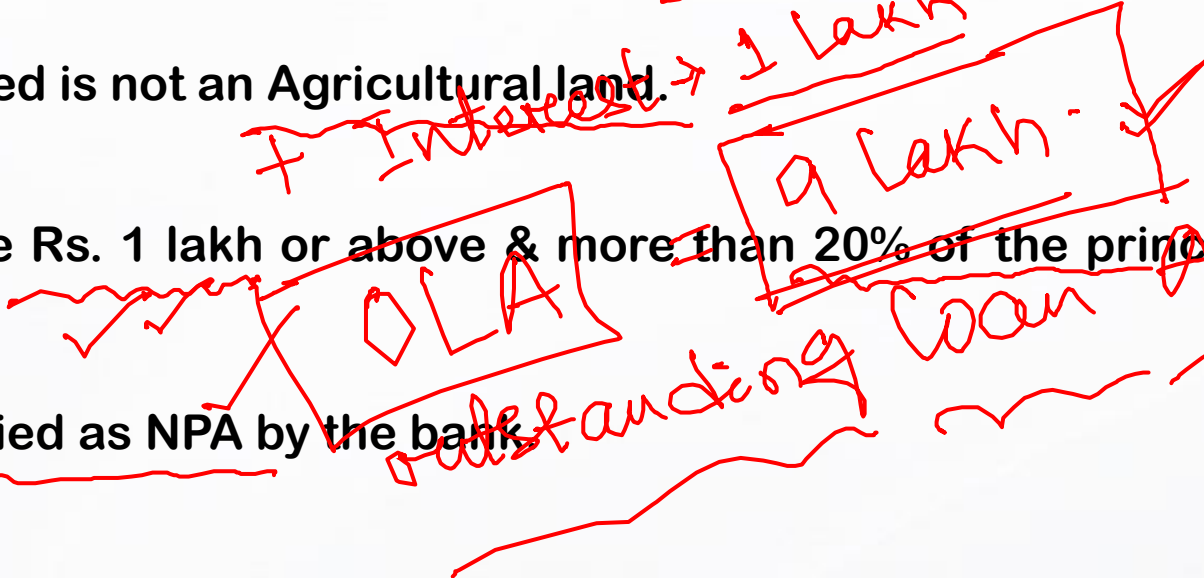
Securitization & Reconstruction
SARFAESI ACT - 2002

Enforcement of Financial Assets
of securities Interest.
Loan → 10 Lakhs

From - Profit
Against - OLA

- SARFAESI Act is applicable where :
- 1. NPA are backed by securities charged to the bank by way of mortgage or Hypothecation or Assignment or pledge or Lien. (SL)
- 2. The security to be enforced is not an Agricultural land.
- 3. The outstanding dues are Rs. 1 lakh or above & more than 20% of the principal loan amount & interest there from.
- 4. The loan has been classified as NPA by the bank.

Paid → 2 Lakhs
8 Lakhs
+ Interest → 1 Lakh



OLA

SARFAESI ACT – 2002

- Banks can give notice in writing to the defaulting borrower asking him to pay the dues within 60 days & if the borrower fails to comply with the notice, then the bank can
 1. Take the possession of the customers asset kept as security
 2. Sale or lease or auction the security
 3. Manage the same security or appoint same one to manage the same security to recover the loan money due from the borrower without the intervention of the court however if the security is invalid or fraudulent or it is a unsecured loan, then the bank would have to move to the court to file civil case against the defaulters.

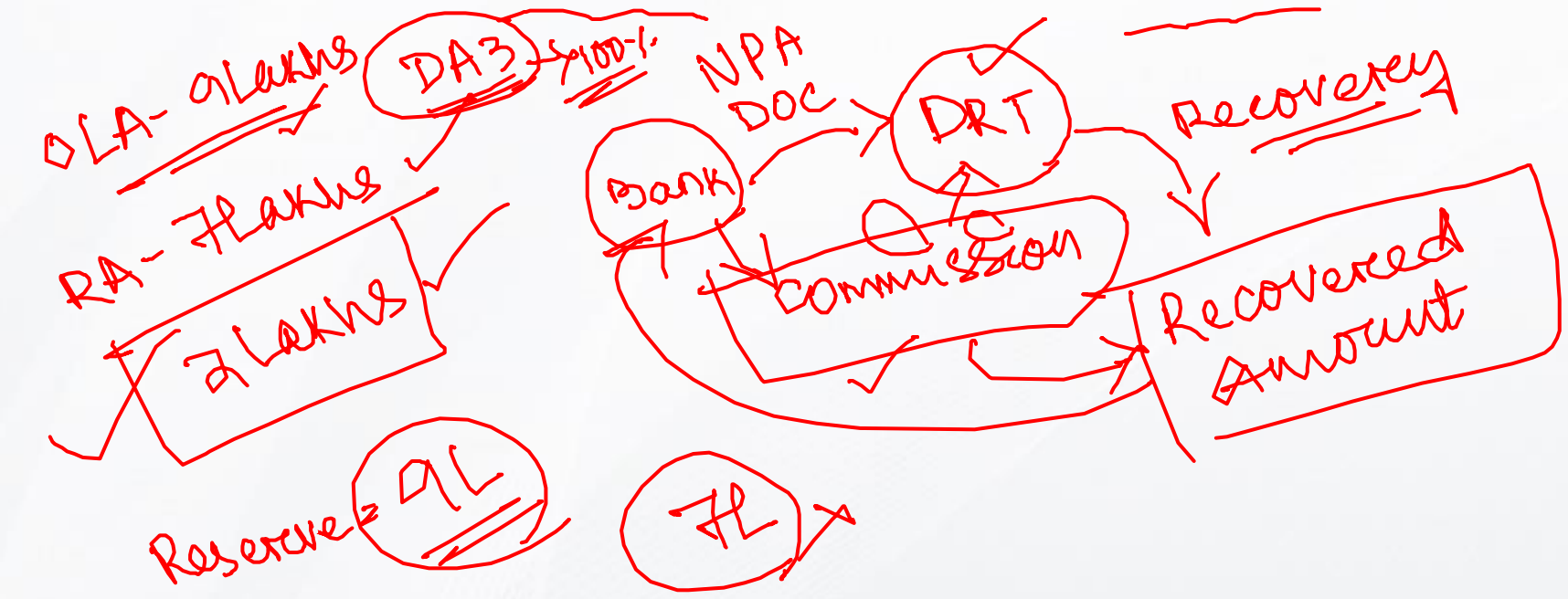
- Before SARFAESI Act – 2002 for recovery of the default loans RDBFI Act – 1993 was there which was passed on the recommendations of Narasimham Committee – Recovery of Debts, Due to Banks & FI's



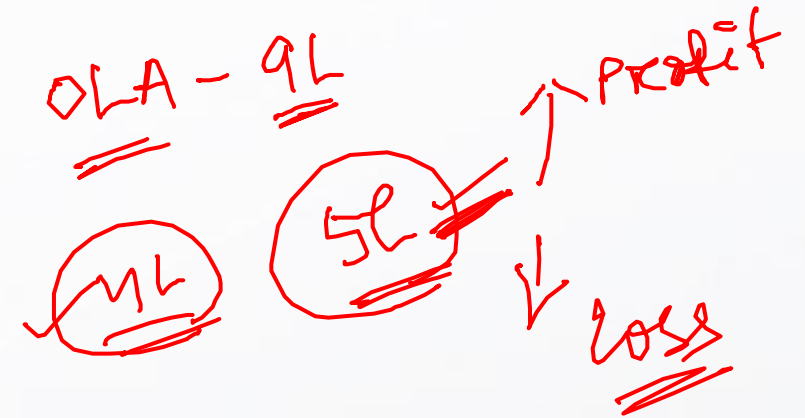
- This act has created forums such as DRT & DRAT (Debt Recovery Tribunals) & (Debt Recovery Appellate Tribunals) to tackle the increasing amount of bad loans.

FI's ⇒ Rs 20 Lakhs (OLA) * min loan size is Rs 50 Lakhs & Asset size of the FI's is Rs 100 cr.

- However, there were several loopholes in the RDBFI Act – 1993 that's why Mr. Andhyarujina Committee was set up to examine the banking sector reforms & on this committee's recommendation SARFAESI Act was passed in 2002.



- ❖ The SARFAESI Act – 2002 also has the provision for the establishment of ARC regulated by RBI to recover the loans of banks and financial institutions. *Asset Reconstruction Companies*
- ARC's are private organization but govt. recognized to do bad loans recovery of banks & financial institutions.
- ARCs directly purchases the NPA document from the bank at a discounted rate & then make the recovery and if the ARC recovers more than that is will be profit for it or vice versa.



Note

1. Banks can sell the NPA to ARC only when the NPA is overdue for > 2 YRS.
 2. An ARC can resale the NPA to another ARC only after holding it for at least 15 months.
- Handwritten notes on the right side of the slide:
✓ ARC-OLA
✓ SE-ARC
2L-ARC1



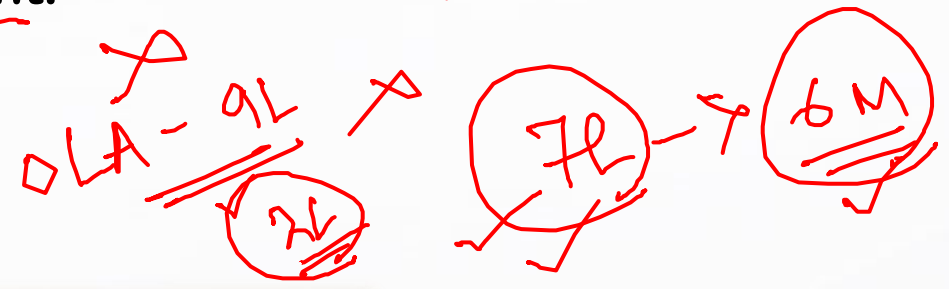
DEBT
IS
BAD

NON-PERFORMING
ASSETS



- ✓ It is similar to civil court. *started under Legal Services Authority Act - 1987.*
- ✓ NPA < 20 lakhs can be referred to Lok Adalat with the consent of both the customer and the bank
- ✓ Basically loans are settled with the mutual understanding of both the customer and the bank in Lok Adalat with an one time settlement.

✓ SC ✓
✓ 10 lakhs ✓



Types of Security (collateral security)

- Mortgage - Immovable Property eg. Land & Building
- Hypothecation - movable property eg. machineries & vehicles.
- Pledge - Gold & other precious ornaments.
- Assignment → Life Ins. Policy Bond.
- Lien → Capital Investment certificate → FD / share / Bond / Debenture / MF
- Reverse Mortgage

[H.P to SBI]

Lifetime mortgage

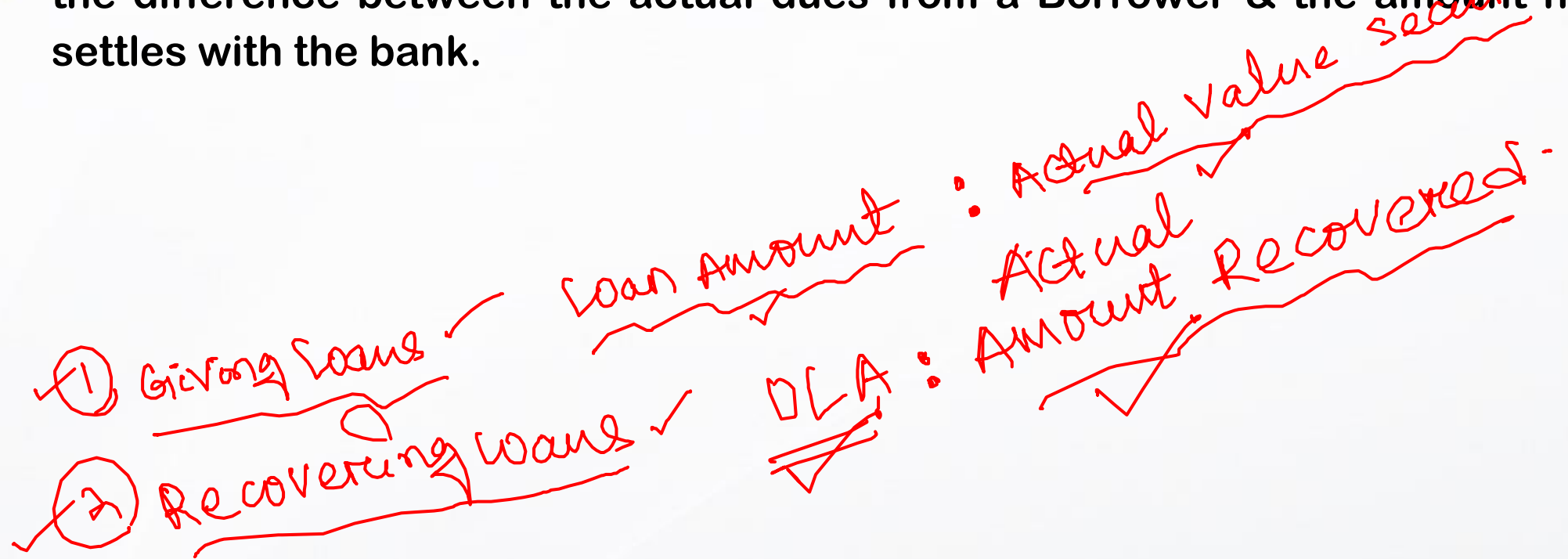
It is the loan allowed to the owner of the house which he does not need to pay for the life & the lender bank will own the house after the death of the borrower.





Haircuts

A haircut is the difference between the loan amount and the actual value of the asset used as collateral security but in the context of loan recovery it is the difference between the actual dues from a Borrower & the amount he settles with the bank.



PCR (Public Credit Registry)

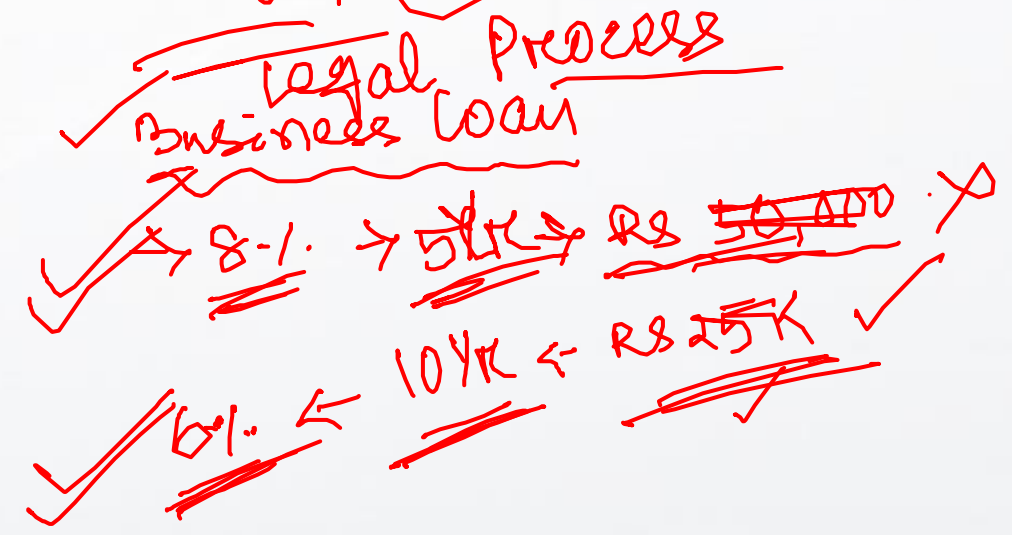
- PCR is a database of credit information for India that is accessible to all banks & financial institutions.
- Maintained by Public Authority / Central Bank.
- 1st country to adopt PCR is Germany.
- GOI has appointed former I&T finance head Y. M. Deshpande to create a near-real-time & comprehensive PCR in India.

Evergreening of loans & Advances ✓

It is the practice of reducing NPAs through cross lending to square off loans from bank or it is the practice whereby banks extend even more loans to debt-laden companies to help them repay the previous loan and hopefully earn enough revenue along the way to get out of trouble.

It is almost similar to restricting of loans but as per Raghuram Rajan (former RBI Governor), Restructuring is a legitimate attempt to deal with changes or to solve a problem but evergreening is trying to ignore the problem & thus create a large problems in future or it is just to hide the problem.

*Dressing up a loan & showing it as Restructured
is like putting Lipstick on a pig, it will not
make it beautiful.*



QUERIES



Thank

you

