

Some Aspects and Issues Relating to NPAs in Commercial Banks *

Granting of credit facilities for economic activities is the main raison d'etre of banking. Apart from raising resources through fresh deposits, borrowings, etc. recycling of funds received back from borrowers constitutes a major part of funding credit dispensation activity. Non-recovery of installments as also interest on the loan portfolio negates the effectiveness of this process of the credit cycle. Non-recovery also affects the profitability of banks besides being required to maintain more owned funds by way of capital and creation of reserves and provisions to act as cushion for the loan losses. Avoidance of loan losses is one of the pre-occupations of management of banks. While complete elimination of such losses is not possible, bank managements aim to keep the losses at a low level. In fact, it is the level of non-performing advances which, to a great extent, differentiates between a good and bad bank. Mounting NPAs may also have more widespread repercussions. To avoid shock waves affecting the system, the salvaging exercise is done by the Government or by the Industry on the behest of Government/Central Bank of the Country putting pressure on the exchequer. For example, due to mounting NPAs in Long Term Credit Bank of Japan, Government of Japan was forced to nationalise it to avoid a major melt down of the financial system.

In India, the Non Performing Advances (NPAs), which are considered to be at higher levels than those in other countries have, of late, attracted the attention of public as also of International Financial Institutions. This has gained further prominence in the wake of transparency and disclosure measures initiated by Reserve Bank of India during recent years. The Committee on Financial System, Capital Account Convertibility Committee and Committee on Non-Performing Assets of Public Sector Banks have dealt with the subject of NPAs in Indian banks. The subject of high NPA levels in banks has also been frequently raised in various fora. These developments have prompted us to undertake a study of NPAs in banks, to understand the problem, its genesis and influence on the banking industry.

Methodology

The study has been carried out using the RBI inspection reports on banks (Annual Financial Inspection Reports), information/data obtained from public sector banks and six private sector banks and those collected from the files on borrowal accounts maintained in banks and selected State Financial Corporations and discussion with officials of both the agencies. For assessing comparative position on NPAs and their recoveries in banks *vis-a-vis* State Financial Corporations, a few State Financial Corporations were also selected and the files relating to their borrowal accounts were perused to become familiar with the steps taken to recover dues and success rate etc.

What is NPA

To begin with, it seems appropriate to define Non Performing Advance popularly called NPA. **Non Performing Advance is defined as an advance where payment of interest or repayment of instalment of principal (in case of Term Loans) or both remains unpaid for a period of two quarters or more. An amount under any of the credit facilities is to be treated as 'past due' when it remains unpaid for 30 days beyond due date.**

1. NPAs in Indian Banking Industry

(i) NPAs in Indian Banks vis-à-vis other countries

Comparison of the problem loan levels in the Indian Banking system *vis-à-vis* those in other countries, particularly those in developed economies, is often made, more so in the context of the opening up of our financial sector. The data in respect of NPAs level of banking system available for countries like USA, Japan, Hongkong, Korea, Taiwan and Malaysia reveal that it ranged from 1% to 8.1% during 1993-94, 0.9% to 5.5% during 1994-95 and 0.85% to 3.9% during 1995-96 as against 23.6%, 19.5% and 17.3% respectively for Indian banks during these years.

Notwithstanding this, some features relating to the NPA reporting/evaluation practices in other countries *vis-à-vis* those in our country need, however, to be considered before reaching to any conclusion on the level of non-performing advances. In some countries, all or bulk of banks' provisions are general provisions and identified losses are written off at an early stage. Banks in these countries carry very little NPAs in their Balance Sheets. The recovery measures are also expeditious in view of stringent bankruptcy and foreclosure laws. The concept of Gross NPA and Net NPA is not in vogue in these countries. In Indian banking, due to the time lag involved in the recovery process and the detailed safeguards/procedures involved before write off could be effected, banks even after making provisions for the advances considered irrecoverable, continue to hold such advances in their books which is termed as Gross NPA together with the provisions. The provision adjusted NPAs in Indian banking segment i.e. Net NPAs, constitute only 8.2% of the net advances of the banks as on 31 March 1998 which no doubt are high by international standard but are not so alarming as Gross NPAs project. Complete year wise details of NPAs of Public Sector banks in India such as gross & net NPAs, sector-wise NPAs, frequency distribution of Net NPAs, etc. are furnished in Appendix I, II & III respectively. Further, classification of Loan Assets is also furnished in Appendix IV.

(ii) NPA Norms across the world

The details and classification standards of non-performance vary from country to country, as the countries put in place norms as per the peculiarities/ requirements of their banking systems. The classification standards adopted in a few countries is given in Appendix V.

The practices with regard to the securities also differ. In certain countries, an advance is considered 'un-collectible' and classified as 'loss' asset only after it remains as past due or doubtful for a certain length of time, whereas in India, an advance is to be classified as 'loss' the moment it is considered 'un-collectible'. In certain other countries, the available securities are deducted from the 'doubtful' advance to arrive at the net doubtful portion, whereas in India, provision is required to be made even on the secured portion. In India, the provision required to be made in respect of the portion not covered by the realisable value of securities in 'doubtful' advance is 100% whereas in some countries, it is 75% or even 50%. The concept of 'collateral' also differs in as much as security of standby nature like guarantee of promoter/third party, net worth of the promoter/ guarantor are not considered as security in India.

Countries have put in place norms in accordance with their requirements and stringent prescriptions do not exist in a number of third world countries. What could be arrived at is a set of best practices, in comparison with which, the norms in India are considered reasonable.

2. Historical Conceptualisation of Problem loans in Indian banking

(i) **Health Code System**

A critical analysis for a comprehensive and uniform credit monitoring was introduced in 1985-86 by RBI by way of the Health Code System in banks which, *inter alia*, provided information regarding the health of individual advances, the quality of credit portfolio and the extent of advances causing concern in relation to total advances. It was considered that such information would be of immense use to bank managements for control purposes. Reserve Bank of India advised all commercial banks (excluding foreign banks, most of which had similar coding system in their organisations) on November 7, 1985 to introduce the Health Code classification indicating the quality (or health) of individual advances in the following eight categories, with a health code assigned to each borrowal account:

1. Satisfactory - conduct is satisfactory; all terms and conditions are complied with; all accounts are in order; and safety of the advance is not in doubt)
2. Irregular - the safety of the advance is not suspected, though there may be occasional irregularities which may be considered as a short term phenomenon)
3. Sick - viable - (advances to units which are sick but viable - under nursing and units in respect of which nursing/revival programmes are taken up)
4. Sick: nonviable/sticky - (the irregularities continue to persist and there are no immediate prospects of regularisation; the accounts could throw up some of the usual signs of incipient sickness)
5. Advances recalled - (accounts where the repayment is highly doubtful and nursing is not considered worth-while; includes where decision has been taken to recall the advance)
6. Suit filed accounts - (accounts where legal action or recovery proceedings have been initiated)
7. Decreed debts - (where decrees have been obtained)
8. Bad and Doubtful debts - (where the recoverability of the bank's dues has become doubtful on account of short-fall in value of security; difficulty in enforcing and realising the securities; or inability/unwillingness of the borrowers to repay the bank's dues partly or wholly)

Under the above Health Code System RBI was classifying problem loans of each

bank in three categories i.e. i) advances classified as Bad & Doubtful by the bank (corresponding to Health Code No.8) (ii) advances where suits were filed/decrees obtained (corresponding to Health Codes Nos.6 and 7) and (iii) those advances with major undesirable features (broadly corresponding to Health Codes Nos.4 and 5).

(ii) Efficacy of the Health Code System

A system of **recognition of income** based on the Health Code classification was thereafter introduced in 1989, where- in, the banks were advised to recognise income only on realisation basis, initially in respect of accounts under Health Codes Nos.6 and above and subsequently for those under Health Code No.5 also. While the Health Code classification was serving as a useful monitoring and Management Information Mechanism, absence of a transparent, objective and uniform yard- stick for measurement of problem (sticky) advances was the major drawback of this system. Further, it was not useful as an enforcement tool due to absence of a benchmark in respect of the time to be taken by banks for recalling the loan once it becomes problematic, deciding to file/ filing of suit thereafter, execution of the decrees obtained, etc.

(iii) Prudential Norms on Income Recognition, Asset Classification and Provisioning

In order to ensure greater transparency in the borrowal accounts and to reflect actual health of banks in their balance sheets, RBI introduced prudential regulations relating to income recognition, asset classification and provisioning recommended by Narasimham Committee (1991) with certain modifications in a phased manner over a three-year period beginning 1992-93. These regulations have put in place objective criteria for asset classification, provisioning and recognition of income, which was lacking hitherto. This change has brought in the necessary quantification and objectivity into the assessment of NPAs and provisioning in respect of problem credits. Stated briefly, the norms are as under:

Income Recognition Income should not be recognised on Non Performing Assets (NPAs) on accrual basis but should be booked only when it is actually realised in respect of such accounts.

Asset Classification An asset is considered as 'Non-performing' in case if interest or instalments of principal or both remain unpaid for more than two quarters and if it has become past due i.e. 30 days after the due date. An advance is to be classified as 'Sub-standard' if it remains NPA upto a period of two years and will be classified as 'Doubtful' if it remains NPA for more than two years (this two years period is being reduced to 18 months by 31 March 2001). An account will be classified as 'Loss', without any waiting period, where the dues are considered uncollectible or only marginally collectible.

Provisioning for NPAs Based on the asset classification as above, the banks are required

to make provision against the NPAs at - 100% for Loss Assets; 100% of the unsecured portion plus 20% to 50% of the secured portion, depending on the period for which the account has remained in doubtful category; and 10% general provision on the outstanding balance in respect of Sub-standard assets. Banks are also required to classify small advances of Rs.25000/- and below in these four categories by 31 March 1998 and in case not able to do so they are required to make provision @ 15% of aggregate outstanding including performing loans. Banks are being asked to make provision @ 0.25% on their standard advances also from the year ending March 31, 2000.

Conceptually, though the sticky/non-performing nature of loans was identified/ defined in the Indian Banking System even before the introduction of the prudential norms on income recognition, asset classification and provisioning thereon in 1992-93, with the introduction of two quarter norm for repayment of principal and payment of interest and prudential provisioning, subjectivity in classification of advances has been reduced and banks' estimate of NPAs is now based on purely objective criteria, the quantum of which is endorsed by external Statutory Auditors.

(iv) Steps/initiatives taken by RBI to contain NPAs

Recognizing the fact that the origin of non-performance could be at the initial stage of loan decision making, RBI had impressed upon banks, from time to time, to strengthen credit appraisal and credit supervision. After sanction and disbursal of credit, banks are required to closely monitor the operations of the borrowal units and accounts by way of obtention of periodic stock/operations statements, draw downs, end use, etc. In cases of incipient sickness, detailed guidelines have been issued to banks to take steps for avoiding sickness, nursing back the sick units, etc. Problem accounts above a certain outstanding balance are required to be monitored individually by designated senior officials of banks. In respect of accounts where the classification of asset worsens, banks are required to take prompt steps to recover the dues and staff accountability is required to be examined. Banks have also been advised to take decisions regarding filing of suits expeditiously and to effectively follow-up the cases of suit filed and decreed accounts. During periodic discussions with bank management, special emphasis is given on monitoring of large NPA accounts at the highest level in the banks and also on reduction of NPAs, through upgradation, recovery and compromise settlements. RBI has advised and accordingly banks' Boards lay down policies in regard to credit dispensation, recovery of credit, etc. Banks have constituted Recovery Cells, Recovery Branches, NPA Management Departments and fix recovery targets.

Policies evolved and steps taken in this regard are critically examined during the annual on-site inspection of banks. The Off-site returns also provide RBI an insight into the quality of credit portfolio at quarterly intervals.

Introduction of prudential norms on income recognition, asset classification and provisioning during 1992-93 and other steps initiated apart from bringing in transparency in the loan portfolio of banking industry have significantly contributed towards improvement of the pre-sanction appraisal and post sanction supervision which is reflected in lowering of the levels of fresh accretion of non-performing advances of banks after 1992.

3. *Historical Nature of NPAs in Indian banks*

(i) **NPAs in Indian banks across the years**

A study of the problem (sticky) loan figures of 33 banks (34 as on 31.3.89 including New Bank of India which was merged with Punjab National Bank later) as on 31 March 1989 under the earlier concept of Sticky advances and their NPAs as on 31 March 1997 under the present prudential norms revealed that the proportion of problem loans in the Indian banking sector was always high. The Sticky accounts of these banks, in fact, formed 17.91% of their gross advances as on 31 March 1989. The percentage of sticky advances to total advances would have been still higher even if a part of the amounts locked up in sick industrial units which were viable or were under nursing were included. Information available reveals that the banks' funds locked up in such sick units were substantial. The Non Performing Advances of these banks were reduced to 17.44% as on 31 March 1997 after introduction of objective norms. It may, however, be added that in many of the banks that reduced the proportion of NPAs as on 31 March 1997 vis-a-vis the position as on 31 March 1989, the reduction was mainly due to proportionately much higher rise in the advances portfolio and lower level of NPA accretion after 1992 which is estimated to be less than 5% on gross basis. The gross NPAs of the entire banking sector had further declined to 16.02% as on 31 March 1998.

The issue that needs deliberation is whether it could be concluded that the high level of NPAs is a historical legacy mainly due to lacunae in credit recovery system, largely arising from inadequate legal provisions on foreclosure and bankruptcy, long drawn legal procedures and difficulties in execution of the decrees awarded by the Court.

A paper recently brought out by FITCHIBCA, an international rating agency, contains the following on the NPAs in the Indian banking system "The Indian legal system is sympathetic towards the borrowers and works against the banks' interest. Despite most of their loans being backed by security, banks are unable to enforce their claims on the collateral, when the loans turn non-performing, and therefore, loan recoveries have been insignificant.

However, there is a significant improvement since 1991 when gross Non- Performing Loans (NPLs) to total loans were estimated to be around 23%, or even in 1995-96, when this ratio was 17.5% . The bulk of the NPLs in the banking sector are due to historical reasons and incremental NPLs, until now, were not a serious problem".

(ii) **Originating factors for the NPAs**

The information collected and the scrutiny of inspection findings of 33 banks and the reports regarding performance of various industrial segments indicated that the dues to the banking sector are generally related to the performance of the unit/industrial segment. In a few cases the cause of NPA has been due to internal factors (to the banks) such as weak appraisal or follow-up of loans but more often than not, it is due to factors such as management inefficiency of borrowal units, obsolescence, lack of demand, non- availability of inputs, environmental factors etc. Wherever the unit/segment is doing well the credit relationship is generally maintained except in cases of willful default/misappropriation/diversion of funds. The problems to the unit/ segment arising out of various internal/ external factors were felt to be originating point for NPAs in banks.

4. Study Findings

The causes for sickness/weak performance and consequently the account turning NPA in respect of the top 50 NPAs of 33 banks i.e. 27 Public Sector and top 6 Private Sector Banks as on 31 March 1997 were studied. Since some of these accounts are under consortium/ multiple banking arrangement, and appear in the books of more than one bank, the number of accounts studied could be about 1550 to 1600.

The reasons for sickness and the factors leading to NPA have been tabulated under the following broad parameters :

(i) **Sick/weakness/NPA reasons**

1. Diversion of funds for expansion/modernisation/setting up new projects/ helping or promoting sister concerns.
2. Time/cost over run while implementing the project.
3. External factors like raw material shortage, raw material/input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents, etc.
4. Business failure like product failing to capture market, inefficient management, strike/strained labour relations, wrong technology, technical problems, product obsolescence, etc.
5. Failure, non-payment/overdues in other countries, recession in other countries, externalisation problems, adverse exchange rate, etc.
6. Govt. policies like excise, import duty changes, deregulation, pollution control orders, etc.
7. Willful Default, siphoning of funds, fraud, misappropriation, promoters/ management disputes etc.
8. Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-up, delay in release of limits, delay in settlement of payments/subsidies by Govt. bodies, etc.

(ii) **Conclusion regarding Contributory reasons**

The study of about 800 top NPA accounts in 17 banks that has been tabulated from the record available revealed that the following are the important causative factors for units becoming sick/weak and consequently accounts turning NPA in the order of prominence.

- **Diversion of funds, (No. 1 above) mostly for expansion/diversification/ modernisation, taking up new projects and for helping/ promoting associate concerns, is the single most prominent reason. Besides being so, this factor is also in a significant proportion of cases, combined with other factors like recessionary trends developing during the expansion/diversification/promotion phase and failure to raise capital/debt from public issue due to market turning lukewarm.**
- **Internal factors (No.4 above) of business (product, marketing etc) failure, inefficient management, strained labour relations, inappropriate technology/technical problems, product obsolescence etc.**

- **External (No. 3 above) factors comprising recession, inputs/ power shortage, price escalation, accidents, natural calamities etc. These are also combined with recession/non-payment in other countries, externalisation problems etc. (No.5 above).**
- **Time/cost overrun during the project implementation stage leading to liquidity strain and turning NPA is the next factor (No. 2 above).**
- **Other factors in their order of prominence are Govt. policies like changes in excise/import duties, pollution control orders etc (No.6); willful default, siphoning off of funds, fraud/misappropriation, promoters/directors disputes etc. (No.7 above) and lastly, deficiencies on the part of banks delay in release of limits and delay in settlement of payments/subsidies by Govt. bodies (No.8 above).**

(iii) Segmentation of the NPAs

It is observed from the above that out of the approximately 800 top NPA borrowal accounts examined, the internal factors far out weighed the external factors in contributing to the NPAs, as on 31 March 1997. It covered a cross section of industries such as Iron and Steel and related units like Ferro Alloys; Man-made Textiles; Real Estate/Civil and Project related Construction; Pharmaceutical; Leather/goods Export; Garment Export; Fertilisers and Chemicals; Cement (considered 'Modern') and Cotton/ predominantly Cotton fibres/textiles; Tea/ Coffee; Jute; Sugar; and Jewellery/ Diamonds (regarded 'Traditional') contributing in that order.

It may be significant to note that during the last about 2 years, certain industries notably Iron and Steel, Real Estate related, Textiles and Exports have been facing problems like demand recession.

The issue that needs to be debated is whether any conclusion could be drawn on the sectoral contribution to the NPAs.

(iv) Impact of Priority Sector advances on NPAs

There is a general perception that the prescription of 40% of the net bank credit to priority sectors have led to higher level of NPAs, due to credit to these sectors becoming sticky. During the Study, this aspect has also been examined. The information obtained with regard to the NPAs in priority sector advances, their proportion to total NPAs of the bank, the NPAs in non-priority sector advances (including public sector units), their proportion to total NPAs of the 27 Public Sector Banks as at the end of last 3 financial years i.e. as of 31 March of 1996, 1997 and 1998 revealed that the proportion of NPAs in priority sectors to total NPAs was 48.27% as on 31 March 1996 which has gradually declined to 46.40% as on 31 March 1998.

The proportion though lesser than the NPAs in non-priority sectors, reveals that the incidence of NPAs in priority sectors is much higher in view of the fact that the priority sector advances constitute only 30% to 32 % of the gross bank credit during the period. However, the gradual increase in the proportion of NPAs in non- priority sectors could indicate that NPAs are increasingly occurring on borrowal accounts of industrial sector during the recent years.

The statistical information as at the end of financial years 1995-96, 1996-97 and 1997-98 relating to the proportion of the NPAs to the advances under priority sectors and the comparative position of NPAs in non-priority sectors *vis-à-vis* the advances to that sector by Public Sector banks is given below :

	(Amount in crores of Rs)		
	1996	1997	1998
Total Advances	229231	244214	284971
Total Gross NPAs	39583 *	43577	45652
% of Gross NPAs to Total Advances	17.27 *	17.84	16.02
Priority Sector Advances (PSA)	69609	79131	91318
% of PSA to Total Advances	30.37	32.40	32.04
Gross NPAs in PSA	19106	20774	21183
% of Gross NPAs in PSA	27.45	26.25	23.20
Share of Gross NPAs in PSA to Total Gross NPAs	48.27	47.67	46.4
Non-priority Sector Advances	159622	165083	193653
Gross NPAs in Non-priority Advances	20477	22802	24469
% NPAs in Non-priority Advances	12.82	13.81	12.63

* The figures of Gross NPAs and the percentage of Gross NPAs to Total Advances as on 31.3.1996 were revised to Rs.41661 crore and 18.00 respectively subsequently, but the break-up of the relative figures for priority sector and non-priority sector were not available.

It is observed that the share of priority sector NPAs in Gross NPAs of public sector banks, though reduced from 48.27% in end- March 1996 to 46.4% in end-March 1998, was significantly higher than the proportion of priority sector advances to total advances, which ranged between 30% and 32% during the above period. The percentage of gross NPAs in priority sector advances, though came down from 27.45 in end-March 1996 to 23.2 in end- March 1998, was almost twice the NPAs in Non-priority sector advances, which ranged from 12.8% to 13.8% during the above period.

From an analysis of the data, it could be inferred that the higher NPAs in priority sector advances have pushed up the overall proportion of NPAs of these banks by about 3% to 4 %.

The higher proportion of NPAs in priority sector advances was attributed to the directed

and pre-approved nature of loans sanctioned under sponsored programmes, absence of any security, lack of effective follow-up due to large number of accounts, legal recovery measures being considered not cost effective, vitiation of repayment culture consequent to loan waiver schemes, etc.

5. Findings of separate survey of industrial sickness

A separate study based on the data furnished by banks relating to 2368 sick/ weak non-SSI industrial units on causes of sickness and the information obtained from various banks have revealed following internal as well as external causative factors for sickness/weakness in this segment.

Internal factors: Project appraisal- deficiencies regarding technical feasibility, economic viability; project management- deficiencies in regard to implementation, production, labour, marketing, financial and administrative, caused 52% of the sickness/weak performance in the sectors.

External factors: (other than marketing) Non-availability of raw materials, power shortage, transport bottlenecks, financial bottlenecks, change in Govt. policy, natural calamities, industrial strike, increase in import cost, increase in overhead cost; Marketing factors like market saturation, product obsolescence, fall in demand/recession and others (not specified) were responsible for sickness/weak performance in 48% of the units.

(This proportion would actually be higher in case increase in overhead cost, product obsolescence, which appear to be more of internal (managerial) nature are added to the internal factors.)

The same study also revealed that among the significant industrial groups, units relating to Textiles, Iron & Steel, Cement, Leather and Leather Products, Rubber, Jute, Sugar and Gem & Jewellery contributed, in that order, to the bank dues remaining outstanding in sick/weak units.

6. Recovery Tools and their effectiveness

The tools available to the commercial banks and the State Financial Corporations for enforcement of the securities and recovery of dues, vary significantly. A study of the usefulness/ effectiveness of the available recovery measures in these institutions has also been made on the basis of record at 5 State Financial Corporations and 15 banks which has revealed the following.

A. State Financial Corporations

(i) The special recovery measures empowering SFCs to take possession of assets, sale thereof, etc. under the SFCs Act, 1951 for recovery of dues are as under :

Sec 29: Rights of Financial Corporations in case of Default

"Where any industrial concern, which is under liability to the Financial Corporation under an agreement, makes any default in repayment of any loan or advance or any instalment thereof, the Financial Corporation shall have the right to take over the management or possession or both of the industrial concern..... and realise the property pledged, mortgaged, hypothecated or assigned."

Sec.31 : *Special Provisions for enforcement of claims by Financial Corporations*

"Where an industrial concern fails to make such repayment, then without prejudice to the provisions of Sec.29, and of Sec. 69 of the Transfer of Property Act, 1882, any officer of the Financial Corporation, may apply to the District Judge, for an order for sale of the property, for enforcing the liability of any surety, for transferring the management, for ad interim injunction restraining the industrial concern from transferring or removing its machinery.....".

Sec.32 : *Procedure to be followed by the District Judge in respect of applications under Sec.31*

When the application is for the reliefs, the District Judge shall pass an ad interim order attaching the security with or without an ad interim injunction restraining the industrial concern from transferring or removing its machinery, plant or equipment. District Judge shall issue a notice calling upon the surety - to show cause on a date to be specified in the notice why his liability should not be enforced; to show cause why industrial concern should not be transferred; to show cause on a date to be specified in the notice why the ad interim order of attachment should not be made absolute or the injunction confirmed. If no cause is shown on or before the date specified, the District Judge shall forthwith order the enforcement of the liability of the surety.

(ii) Other Supplementary Enactments/Powers

While the above are the uniform powers given to the Financial Corporations under the SFCs Act, 1951, in certain States, the State Governments have extended the powers/measures under the Revenue Recovery, Recovery of Public Money provisions to the dues of the Corporations also and taken other supplementary measures. For instance, in one State, the State Government declared that the Corporation's dues are recoverable as arrears of land revenue under the State's Public Monies Recovery Act as well as under Section 32-b of the SFCs Act. The officers of the Financial Corporation not below the rank of Assistant Branch Manager are conferred with the powers of Tahsildar under Section 146 & 147 of the State's Land Revenue Code. In another State, two officials of the Revenue Department are on deputation to the Financial Corporation. Similarly in another State, the Corporation can also approach the District Magistrate under the Provisions of the Revenue Recovery Act. While dealing with a case, the Karnataka High Court opined that the Corporation can proceed to take action under Section 29 of the SFCs Act for taking possession and disposing of residential property offered as collateral security also.

(iii) Exercise of the Recovery Measures by SFCs

Possibly due to lack of uniformity in the diligence exercised by the SFCs in enforcing

these powers, borrowers have approached Courts against the actions taken under Section 29 etc. by the SFCs. In a landmark judgement, while dealing with one such case i.e. "Harish Chandra vs U.P. Financial Corporation", the Honourable Supreme Court stipulated detailed guidelines to be followed on the part of the SFCs in the interest of reasonable opportunity. All the SFCs covered under the study have standardised their procedures on the lines of the Supreme Court guidelines. As per these procedures, the SFCs, at every stage, issue notices and give reasonable opportunity to the borrowers i.e. before initiating action under Section 29, for giving possession to SFC on the date fixed, to pay the dues and take back possession, while the tender/auction proceedings are initiated as also when being finalised, to pay and take back possession or bring alternate buyers even after auction. This procedure has not resulted in delaying Sec.29 process excepting in some cases. The opinion of the Corporations has also been that these guidelines have not resulted in delay/obstruction in enforcing the powers. The Corporations, however, take further precautions by way of filing Caveats in order to prevent the borrowers from resorting to litigation to stall the takeover or from alienation of the assets.

(iv) Effectiveness of the Recovery Measures in SFCs

The performance of such SFCs (covered under the study) during the last 3 years in enforcement of the Sec. 29 process is furnished below:

	Data Regarding Taking Over / Disposal of Units					
	1995-96		1996-97		1997-98	
	No.of units taken over	No. of units disposed**	No.of units taken over	No. of units disposed**	No.of units taken over	No. of units disposed**
MSFC	130	216	135	92	124	94
MPFC	205	174	158	174	86	102
WBSFC	41	42	111	20	57	20
KSFC	1417	1191*	2687	2211*	2294	2102*
TIIC	NA	NA	939	417	1153	209

* Comprise mostly of units given repossession to the borrowers.

** Including those taken over during previous year/s also.

The performance of SFCs in exercising special powers vested in them for recovery of dues is analysed in terms of (a) seizure of unit; (b) disposal of assets; and (c) NPAs of SFCs as under.

(a) Seizure of units

As stated in para no 6A(i) above, the SFCs are empowered under the provisions of Sections 29, 31 and 32 of SFCs Act,1951 to seize and dispose of assets of any industrial concern that has defaulted in repayment of dues without resorting to Courts.

Even where borrowers have approached courts to stall takeover by SFCs, obligations on the part of judiciary laid down by the provisions of Section 32 of the SFCs Act facilitated expeditious settlement of cases. This has enabled SFCs to take possession of units speedily and enforce the securities.

In the course of the study it was seen that the SFCs are effective in taking possession of

units, though it is resorted to as a last resort. To that extent, these Sections are serving the purpose of inducing the borrowers to pay the dues and act as deterrent to other borrowers. Sample cases studied at the SFCs revealed that even after the detailed procedures that were to be followed, the process could be completed in a short period.

There were however, exceptions to this. In some cases, such as where creditors have filed for liquidation and Court Receiver is appointed, cases referred to BIFR, where the workmen resort to litigation/representation, dispute about statutory dues etc. arise or where borrowers resort to litigation, the process has been delayed. It however, needs to be stated that in many of these cases, the legal process has not been as lengthy as is evidenced in the case of suits filed by banks.

(b) Disposal of units

With regard to disposal of assets taken over, the success level of the SFCs, however, varied since disposal of assets depended on various factors like industrial climate in the area, location of the unit, special nature of the asset, etc. Due to the recessionary trends in various industries during the last 2 years or so, disposal/ resale has not been productive and SFCs visited are reported to have slowed down on takeover of assets in order not to be saddled with many units. It is also the practice in some SFCs to assess/survey the possibilities of sale before taking over the units.

(c) NPAs of SFCs

The study has shown that the SFCs are using special recovery powers sparingly now a days because of the various problems faced by them which are enumerated below :

- (i) In many cases they are called upon to finance green field ventures and also resort to handholding of the entrepreneur who are generally new and inexperienced in the nuances of business;
- (ii) In small places the chances of alternative entrepreneurs coming forward to take failed units and appreciation in asset values are bleak;
- (iii) Filing suits in Civil Courts, Writ Petitions in High Courts or petition before the consumer Forums by the borrowers, and obtaining stay on action takes considerable time;
- (iv) On advertising for the sale of the assets number of claims are received by the Corporation from the Government Departments/Local Bodies such as Commercial tax, Central Excise, Electricity Bills, Property tax, etc. Under these circumstances the prospective purchaser of the assets insists the corporation to dispose of the assets free from all kinds of encumbrances which delays the process;
- (v) Sometimes due to market factors the price received by the Corporation is not even sufficient to cover its own outstanding balance;
- (vi) The recovery of balance amount after the sale also poses problems as locating properties of defaulters/ guarantors, disposal of these assets become a long drawn exercise.

On the basis of data collected from SFCs and banks it was however observed that SFCs could effect better recoveries as compared to banks in those cases where the assets of the borrowers were seized under the special powers vested with the Corporations. However, despite use of such powers SFCs on the whole have not been able to show better results and their NPAs are uniformly much higher than the banks. There is also some evidence that the special powers are being sparingly used in last one or two years.

B. Commercial Banks

Apart from the usual recovery measures like issue of notices for enforcement of securities and recovery of dues, the commercial banks are required to resort to the legal process by way of money or mortgage suits or file claim with the Debt Recovery Tribunal (DRT), which have been set up at several places.

(i) Extent of Suit filing/Recovery etc. by banks

The data from 33 banks (27 public sector and 6 private sector) and the study of files relating to measures taken for recovery by way of suit filed by 15 banks have revealed that banks do file suits after exhausting other means of recovery. During 1996 the amounts involved in suit filed cases accounted for 26.21% of these banks' NPAs. In 1997 and 1998 this was further increased to 33.91% and 46.38% respectively. **The recoveries made out of suit filing by these 33 banks during the last three years were 7.33%, 4.74% and 4.32% respectively of the suit filed amounts evidencing decreasing trend of recovery through this route. In view of such meagre recovery, the banks before filing suit weigh the likely recovery prospects out of the suit and the opportunity cost of any amounts that could be recovered immediately. Suit filing, as such, is resorted to as the last alternative. Further, as advances in 'Sub-standard' category due to temporary problems like slow moving stocks, delay in receivables, etc. are not always irrecoverable and some of them get regularised and upgraded to 'Standard' accounts, the suit filing in such accounts is neither required nor resorted to. In view of the cost-benefit implications and time factor in suit filing, banks consider legal measures only when the account is classified atleast as 'Doubtful'.**

(ii) Effectiveness of suit-filing/Legal recovery measures in banks

Due to various reasons, disposal of suits take a long time in the Courts. This is, according

to some banks, not only encourages the incidence of NPAs but also prolongs their existence by placing premium on default. In the course of study, it was noticed that as many as 1436739 suit filed cases were pending disposal as on 31 March 1998 for an amount of Rs.21,824.92 crore. The prescribed procedure for recovery of debts due to banks and financial institutions has resulted in blocking of a significant portion of their funds in unproductive assets, the value of which deteriorates with the passage of time. The multiple litigation opportunities available to the borrowers for delaying the verdicts/enforcement, Courts being burdened, as they are, with heavy work load, coupled with the tardy decision making process in the banks, render legal process less useful. The recoveries made through the suit filing process indicated above is self revealing. Statements collected from some banks visited during the study regarding the age- wise pendency of suits revealed that significant portion of the suits were pending for more than a decade. **In some cases there were cases where the suits were pending for 15 to 20 years, but no progress was made in the suit. Out of all the suit filed cases of Rs.1 crore and above studied in 15 banks which were visited, there was only one case in which the suit filing was taken to the logical end ie., execution of decree, recovery as per the decree, and closure of the borrowal account.**

(iii) Time Taken for Settlement of Suits

While it is difficult to work out the average time taken for disposal of suits filed by the banks, it is observed during the perusal of suit filed cases in banks that it took many years, in many cases more than a decade, for the Courts to settle the suits. Even after passing of the Orders/ Decree, due to the multiple litigation opportunities, e.g. referring to Appellate Courts, Higher Courts, Full Benches etc. long time is taken for settlement of the cases. Difficulties are also faced and delay is occurring in execution of Decrees.

In the light of the above, the issue that needs deliberation is that despite banks resorting to filing of suits in NPA cases constituting 48.27% of the NPAs, even as a last resort, whether the legal process has been beneficial in recovery of dues of banks and enforcement of credit discipline and if not, the measures that could be taken for making this process an effective tool.

(iv) Time taken due to BIFR/AAIFR references

In the course of the study, it has been observed that the above noted legal process gets further elongated/complex in cases where legal action are either delayed or the matter comes under the purview of the Board for Industrial and Financial Reconstruction (BIFR) and the Appellate Authority for Industrial and Financial Reconstruction (AAIFR). In terms of Section 22 of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the enquiry or registration of an Industrial Company as a sick unit operates as a bar for any proceeding for winding-up of such industrial company or appointment of a receiver or any suit for recovery of money or for enforcement of any security of the industrial company without the consent of the Board or the Appellate Authority.

During the course of study certain cases were seen wherein recovery process have

been further delayed due to BIFR/AAIFR taking up those cases. At present a reference to BIFR places the borrower in an advantageous position *vis-a-vis* banks as no recovery proceedings can be started till the pendency of the case with BIFR/AAIFR. This is exploited by the borrowers to the hilt. It may be added that borrowers fudging the accounts in order to bring the units under the SICA/BIFR purview and stall the recovery actions by banks is not improbable. Such instances have been noticed during the study. Banks strongly feel that BIFR generally takes very long time to decide the case and approve rehabilitation package in case of sick units. There is an immediate need to suitably amend SICA providing certain period within which BIFR should adjudicate an unit as sick one and come out with rehabilitation package. Banks also feel that constitution of more benches of BIFR at major centres with sufficient backup may help in expediting disposal of cases by BIFR.

(v) **Debt Recovery Tribunals**

As at the end of June 1997, out of total number of 11700 cases filed and transferred to DRTs involving Rs.8866.67 crore, only 1045 cases had been decided and a meagre amount of Rs.178.08 crore was recovered.

The data suggests that the working of DRTs had fallen short of the expectations by not creating a fast track system for recovery of bank dues. Banks are of the view that so far the constitution of the Debt Recovery Tribunals has not contributed substantially in recovery of problem loans/ enforcement of securities by the bank as they are not equipped with proper infrastructure and required flexibility. There is therefore immediate need for removing all the impediments coming in the way of smooth functioning so as to make it play the role expected of it.

Other Vehicles

Certain other vehicles have also been suggested to address the problem of NPA recovery. Among these are :

- **Debt Settlement Tribunals:** Since the DRT has to function in the normal frame of a judiciary machinery and hence suffers from the delays occurring due to judicial processes, it is desirable to think of some alternative agencies to expedite recovery of bank dues. The Debt Settlement Tribunal may provide a good opening for banks to get these recoveries fast as the system provides for an appointment of a Recovery Officer by the bank itself who will issue the demand notice and pass the award. The defaulter may apply to the Debt Settlement Tribunal for settlement of the debt suggesting the terms on which he wants to settle. The Tribunal may hear both the parties and pass the final award which will be binding on both the parties.
- **Lok Adalats:** For recovery of smaller loans the Lok Adalat have proved a very good agency for quick justice and settlement of dues. The Gujarat State Legal Service Authority and the DRT, Ahmedabad have nominated and appointed Conciliators to deal with the cases before the Lok Adalat comprising of retired High Court Judge and two members from Senior Advocates/ Industrialists/Executives of the banks. These Adalats in the State of Gujarat have

been found to be useful as a supplement to the efforts of recovery by the DRTs. Such agencies should be established in all the states.

- **Asset Reconstruction Company:** The setting up of Asset Reconstruction Company may be another channel to transfer the NPAs of the banks to such an agency and developing the process of securitisation of banks' loan assets for providing liquidity. Perhaps, secondary market of derivatives based on securitised assets could also be developed as in developed countries.

Amendment to banking related laws: The necessary changes in the legal framework i.e., B.R. Act and other bank related Acts may be expedited providing therein repossession of the collateral, foreclosure and bankruptcy procedures for defaulting borrowers. In absence of any reliable credit investigation/ information agency in India, amendment to related banking laws for publishing names of borrowers who have settled their dues either through compromise or court wherein sacrifice by the bank was of substantial amount say, Rs. 25.0 lakh or more should also be considered to deny further facilities by other banks to such borrowers, atleast, for certain period.

- **Revenue Recovery Act**
In some states Revenue Recovery Act has been made applicable to banks. Since this is also an expeditious process of adjudicating claims, banks may be notified to be covered under the Act by states having such Act .
- **Devising policies with a long term perspective**
Government and other authorities should devise policies having a bearing on the industrial sector, agriculture and trade with a long term perspective to avoid sickness in the industry and adverse impact on borrowers because of sudden shift in the policy.
To sum up, NPAs in banks need tackling promptly through a double pronged approach viz. preventive and creative measures by banks at macro and micro levels. This may include a well structured NPA management policy, formulating risk rating system, introducing pre-disbursement audit and credit audit system for large advances, and also systems to tackle potential problem loans (including likely BIFR cases) well in time. Further, maximising recovery through transparent compromise proposals, setting up of internal committees at different levels in the bank for quick disposal of settlement proposals and forming of special recovery/NPA cells at controlling offices will accelerate the pace of recovery. Actions such as making accountable concerned staff for recovery, opening up of specialised rehabilitation branches for providing focussed attention to BIFR cases and cases marked for recovery through legal means may also help in this regard. Upgradation of information technology will facilitate better credit administration and help sharing vital information between branches as also between banks and FIs and this should be the priority area for bank managements. The bank should also start playing the role of friend, philosopher and guide by counseling corporate borrowers to sell out assets not necessary for their core area of production/competence. All these measures are necessary in order to improve the bottomlines of the banks and shore up their image, particularly in the context of the opening up of the economy and the major Indian banks starting to look for overseas expansion. Since credit risk is by far the major risk the banks take in their working, elimination of NPAs

altogether is not possible. The efficiency of a bank depends on its ability in judicious risk taking, effective monitoring of the portfolio, identifying potential non-performance early, expeditious remedies/ foreclosure to minimise the NPAs and ensuring that the effect of the NPAs on its financials is minimum.

Conclusion

As the thrust of the second phase of reform is on improvement in the organisational efficiency of banks, the most critical area in the improvement of profitability of banks is the reduction of NPAs. This issue is intimately connected with the overall stability of the financial system and need to be so recognised for concerted and multipronged efforts. As has been stated earlier in this paper apart from internal factors such as weak credit appraisal, non-compliance and wilful default, there are several external factors such as preponderance of certain traditional industries in the credit portfolio of certain banks, majority of which are suffering from serious inherent operational problems, natural calamities, policy and technological changes which increase the incidence of sickness, labour problems and non-availability of raw materials and other such factors which are not within the control of banks. While banks cannot be blamed for advances becoming non-performing due to external factors, there is an urgent need that the banks address the problems arising out of internal factors and this may call for organisational restructuring of banks, a change in the approach of banks towards legal action which is generally the last step and not the first step, no sooner the account becomes bad and a clear thrust on improving the skills of officials for proper assessment of credit proposal, risk factor and repayment possibilities. Though there are problems in effecting recoveries and write offs and in compromise settlements, it is of utmost importance that necessary changes are brought about in the related legislations for making recovery process more smooth and less time consuming and also create other alternative channels/agencies for recovery of debt/ reduction of non-performing advances. As the Lok Adalat have proved a very good agency for quick justice and recovery of smaller loans, their use could go a long way as a supplement to the efforts of recovery by the DRTs. The setting up of Asset Reconstruction Company can also play a vital role in reduction of NPAs and thereby provide necessary liquidity to banks through securitisation of banks' loan assets. Government and other authorities could also devise policies having a bearing on the industrial sector, agriculture and trade with a long term perspective to avoid sickness in the industry and adverse impact on borrowers because of sudden shift in the policy. **Reduction of NPAs in banking sector should be treated as a national priority item to make the Indian banking system more strong, resilient and geared to meet the challenges of globalisation. It is necessary that public debate is started soon on the problem of NPAs and their resolution. It is hoped that this paper will provide a base and generate a healthy public debate which may be helpful in evolving suitable strategies for satisfactory resolution of the problem.**

* Prepared in the Department of Banking Supervision, RBI, CO by Shri A.Q . Siddiqi, Chief General Manager In charge, and S/Shri A.S. Rao and R.M.Thakkar, Deputy General Managers.

Appendix - I **Gross and Net NPAs of Public Sector Banks - 1992-93 to 1997-98**

(Amount in Rs. crore)

End-March	Gross NPAs	% to Gross Adv.	% to total assets	Net NPAs	% to Net Adv.	% to total Assets
1.	2.	3.	4.	5.	6.	7.
1993	39,253	23.2	11.8			
1994	41,041	24.8	10.8			
1995	38,385	19.5	8.7	17,567	10.7	4.0
1996	41,661	18.0	8.2	18,297	8.9	3.6
1997	43,577	17.8	7.8	20,285	9.2	3.6
1998 (provisional)	45,653	16.0	7.0	21,232	8.2	3.3

Appendix - II
Sector-Wise NPA of Public Sector Banks: 1994-95 to 1997-98

(Amount in Rs. crore)

Bank Group	Priority Sector	Non-Priority Sector	Public Sector	Total
1.	2.	3.	4.	5.
March 1995				
1. SBI	6,966 (52.5)	5,496 (41.4)	809 (6.1)	13,271 (100.0)
2. Nationalised Banks	12,242 (48.7)	12,366 (49.2)	507 (2.0)	25,115 (100.0)
3. PSBs (1+2)	19,208 (50.0)	17,861 (46.5)	1,316 (3.4)	38,385 (100.0)
March 1996				
1. SBI	7,041 (53.7)	5,263 (40.1)	816 (6.2)	13,120 (100.0)
2. Nationalised Banks	12,065 (45.6)	13,804 (52.2)	595 (2.3)	26,464 (100.0)
3. PSBs (1+2)	19,106 (48.3)	19,067 (48.2)	1,411 (3.6)	39,584 * (100.0)
March 1997				
1. SBI	7,248 (50.4)	6,291 (43.8)	829 (5.7)	14,368 (100.0)
2. Nationalised Banks	13,528 (46.3)	15,049 (51.5)	632 (2.2)	29,209 (100.0)
3. PSBs (1+2)	20,776 (47.7)	21,340 (49.0)	1,461 (3.3)	43,577 (100.0)
March 1998 (P)				
1. SBI	7,470 (48.1)	7,390 (47.6)	662 (4.3)	15,522 (100.0)
2. Nationalised Banks	13,714 (45.5)	15,717 (52.2)	700 (2.3)	30,131 (100.0)
3. PSBs (1+2)	21,184 (46.4)	23,107 (50.6)	1,362 (3.0)	45,653 (100.0)

* Revised to Rs.41,661 crore P : Provisional
 Note : Figures in brackets are percentages to the total.

Appendix - III
Frequency Distribution of Net NPAs : Public Sector, Indian Private Sector and Foreign Banks : 1996 to 1998

Net NPAs/Net Advances		(No. of Banks)		
		End March		
1.		1996	1997	1998
		2.	3.	4.
Public Sector Banks				
1.	Upto 10 per cent	19	17	17
2.	Above 10 and upto 20 per cent	6	9	9
3.	Above 20 per cent	2	1	1
Old Indian Private Sector Banks				
1.	Upto 10 per cent	22	22	21
2.	Above 10 and upto 20 per cent	3	3	4
3.	Above 20 per cent	Nil	Nil	Nil
New Private Sector Banks				
1.	Upto 10 per cent	9	9	9
2.	Above 10 and upto 20 per cent	Nil	Nil	Nil
3.	Above 20 per cent	Nil	Nil	Nil
Foreign Banks in India				
1.	Upto 10 per cent	30	36 *	34 @
2.	Above 10 and upto 20 per cent	1	1	6
3.	Above 20 per cent	Nil	2	2

* Out of 36 foreign banks, 16 banks had nil NPA as compared with 12 (out of 30) in 1995-96.

@ Out of 34 foreign banks, 14 banks had nil NPA.

Appendix - IV
Classification of Loan Assets : Public Sector Banks - 1992-93 to 1997-98
(As at end-March)

		(Amount in Rs. crore)					
1.		1993	1994	1995	1996	1997	1998
		2.	3.	4.	5.	6.	7.
1.	Standard Assets	1,30,087 (76.8)	1,24,580 (75.2)	1,58,967 (80.6)	1,89,660 (82.0)	2,00,637 (82.2)	2,39,318 (84.0)
2.	Sub-standard Assets	12,552 (7.4)	12,163 (7.4)	7,758 (3.9)	9,299 (4.0)	12,471 (5.1)	14,463 (5.1)
3.	Doubtful assets	20,106 (11.9)	23,317 (14.1)	22,913 (11.6)	24,707 (10.7)	26,015 (10.6)	25,819 (9.1)
4.	Loss Assets	3,930 (2.3)	4,073 (2.4)	3,732 (1.9)	4,351 (1.9)	5,090 (2.1)	5,371 (1.9)
5.	Advances with balances less than Rs.25,000 included in NPA	2,665 (1.6)	1,488 (0.9)	3,982 (2.0)	3,304 (1.4)		
6.	Total NPAs (2 to 5)	39,253 (23.2)	41,041 (24.8)	38,385 (19.4)	41,661 (18.0)	43,576 (17.8)	45,653 (16.0)
7.	Total advances (1+6)	1,69,340 (100.0)	1,65,621 (100.0)	1,97,352 (100.0)	2,31,321 (100.0)	2,44,213 (100.0)	2,84,971 (100.0)

Note : Figures in brackets are percentages to total advances.

Appendix - V
Prudential Norms for Asset Classification Adopted by India and Some Other Countries

Country	Categories	Loans Classification System	Provisioning requirements
Indonesia	Current	Installment Credit with no arrears, other credit in arrears less than 90 days, overdrafts less than 15 days.	0.5 per cent
	Sub-standard	Generally, loans with payments in arrears between three and six months.	10 per cent
	Doubtful	Non-performing loans that can be rescued and the value of collateral exceeds 75 per cent of the loan, or loans that cannot be rescued, but are fully collateralised.	50 per cent
	Loss	Doubtful loans that have not been serviced for 21 months; credit in process of bankruptcy/liquidation.	100 per cent

Loans must be written off 21 months after litigation, indicates the loans

			will not have to be repaid.
Korea	Current	Borrower's credit conditions (including collateral) are good and collectibility of interest and principal are certain.	0.5 per cent
	Special mention	Payments are past due for between three months and six months, but collection is certain.	1 per cent
	Sub-standard	Loans covered by collateral but borrower's credit conditions are deteriorating and payments are more than six months past due.	20 per cent
	Doubtful	Unsecured portion of the loans that are more than six months past due and losses are expected.	75 per cent
	Estimated loss	Unrecoverable amounts due net of collateral.	100 per cent
			Loans must be written off within six days of being declared unrecoverable; Write-offs in excess of W300 million require Bank of Korea approval.
Malaysia			For loans less than RM 1 million
	Standard	More than a normal risk of loss due to adverse factors; past due for between 6 and 12 months.	0 per cent
	Doubtful	Collection in full is improbable and there is high risk of default; past due for between 12 and 24 months	50 per cent of net (of collateral) outstanding value
	Bad	Uncollectible; past due for more than 24 months.	100 per cent of net outstanding value
			Loans must be written off when bankruptcy hearings have finished and/or partial or full repayment is unlikely.
			A general provision of at least 1 per cent of total loans net of interest in suspense and specific provisions is also required.
Philippines	Unclassified	Borrower has the apparent ability to satisfy obligations in full; no loss in collection is anticipated.	0 per cent of net (of collateral) exposure.
	Special mention	Potentially weak due, for example, to inadequate collateral, credit information, or documentation.	0 per cent
	Sub-standard	Loans that involve a substantial degree of risk of future loss.	25 per cent
	Doubtful	Loans on which collection or liquidation in full is highly improbable, substantial losses are probable.	50 per cent
	Loss	Uncollectible or worthless.	100 per cent

					Interest is not accrued on past-due loans, which are loans or other credit not paid at the prescribed maturity date or, in the case of instalment credit, in arrears by more than a prescribed amount depending upon the frequency of instalments.	
Argentina		Consumer Loans	Commercial Loans	Liquid G'tee	Preferred G'tee	Without G'tee
	Normal	Less than 31 days overdue	No doubt exists.	1 per cent	1 per cent	1 per cent
	Potential risk	31- 89 days overdue	Performing, but sensitive to changes or more than 30 days overdue.	1 per cent	3 per cent	5 per cent
	Problem	90 - 179 days overdue	Problems meeting obligations; or 80-179 days overdue	1 per cent	12 per cent	25 per cent
	High risk	180-365 days overdue or subject to judicial proceedings for default	Highly unlikely to meet obligations; or more than 180 days overdue.	1 per cent	25 per cent	50 per cent
	Irrecoverable	More than 365 days overdue	Obligations cannot be met; more than 365 days overdue	1 per cent	50 per cent	100 per cent
	Irrecoverable for technical decision	Bankruptcy/ liquidation/ insolvency	Bankruptcy/ liquidation/ insolvency	100 per cent	100 per cent	100 per cent
Chile (allowance period is 90 days in all the 3 types of advances)	A - Current B B C D	<u>Consumer</u> Current 1 - 30 days 3 - 59 days 60-119 days >120 days	<u>Mortgage</u> Current 1- 179 days > 179 days N.A. N.A.	<u>Commercial</u> Probability of default = 0% Probability of default > 0%, < 5% Probability of default = > 5%, < 40% Probability of default = .> 40%, < 80% Probabilty of default = >80%, < 100%	Minimum initial provision (for NPAs) on consumer loan and mortgage loan (NPAs) is required to be made @ 60% and 1% respectively whereas the provisioning requirement on commercial loan is subjective	
Peru (allowance period is 30, 30 and 15 days respectively for the three types of advances)	A - Normal B - Potential problems C - Sub-standard D - Doubtful E - Loss	Current 10-29 days 30-59 days 60-120 days > 120 days	Current 32-89 days 90-119 days 120 - 365 days > 365 days	Current with no doubts Demonstrated deficiencies 60-119 days 120 - 364 days > 365 days	Minimum initial provision @ 30%, 1% and 15% is required to be made on consumer loan, mortgage loan and commercial loan (NPAs) respectively.	
India	Sub-standard	Loans that have been non-performing for up to two years, term loans on which the principal has not been reduced for more than one year, and all rescheduled debts.		10 per cent		
	Doubtful	Loans that have been non-performing for two to three years and term loans on which the principal has not been reduced for more than two years.		100 per cent of unsecured assets; for secured assets; 20 per cent if doubtful for less than one year; 30 per cent if		

doubtful for one to three years, 50 per cent if doubtful for more than three years.

Loss	All other assets deemed irrecoverable, where the loss has been identified by internal or external auditors or by the Reserve Bank of India inspectors, but where the amount has not been written off.	100 per cent
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