

## **CHAPTER –VII**

### **MANAGEMENT OF NON-PERFORMING ASSETS**

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## **7.1 Management of Non-Performing Assets**

State Bank of India's (SBI's) NPA Management Policy (NMP) seeks to lay down the Bank's policy on management and recovery on NPAs and proactive initiatives to prevent generation of NPAs. The aim of NMP is to contain net NPAs to less than five percent of Bank's total loan assets in conformity with the international standard [NPA Management Policy, SBI, 2006]. The basic tenets of the policy includes detail notification for 'maintaining the asset quality'; 'identification of potential NPAs'; 'Problem loan review and reporting'; 'approach to rehabilitation of borrowers business' etc. For the purpose of detecting possible defaults and delinquencies, the NMP of SBI has also given an illustrative list of the warning signals which may be referred to by branches.

Factors like incidence of NPAs due to economic recession, market failure, high rate of interest etc. are random components and exposed to systematic risk of the banks whereas non-random components like 'Lax in monitoring of accounts', 'late working on early warning signals' etc. exposed to unsystematic risks of the bank and can be reduced to zero with minimum effort. Keeping in view all these, in order to study the management on NPAs, we have relied on some non-random factors which are very much internal and within the control of bank officials.

The influence of different attributes on NPA management is not additive but interactive. Moreover, due to non-availability/insufficient data, rigorous test of hypotheses is not possible. Given this limitation and the crude scoring system, no statistical analysis is possible. Nevertheless,

the data do seem to suggest some broad patterns of association. With the intention to study the management of NPAs, the present chapter devotes its attention to the analysis of the indicators of NPAs management by the selected branches SBI in the study area.

## **SBI's NPAs MANAGEMENT POLICY**

NPA management policy of State Bank of India seeks to lay down the bank's policy on management and recovery of non –performing assets and pro active initiatives to prevent generation of NPAs.

### **Basic Tenets of NMP**

- **Stop slippage** of performing assets to non-performing assets through early identification on the basis of early warning signals and initiation of corrective action.
- Once the assets are classified as NPAs, the branch/bank should **redouble** its effort to reduce the quantum of NPAs.

In view of the above, we have attempted to study how effectively the selective branches are managing their NPAs.

### ***7.1.1 Maintaining the Assets Quality***

Once the asset is booked, maintaining the asset quality is of paramount importance. Since prevention is better than cure, it would be easier to arrest the slippage in quality rather than upgradation of an NPA.

Maintaining asset quality can not be a single out task of a single department and it requires attention in the following stages:

- a) Pre-Sanction Appraisal including project Appraisal, Assessment-Borrower Selection, Compliance of terms and conditions of Sanction;
- b) Post-Sanction Monitoring and Follow up of advances

#### **a) Pre-Sanction Appraisal**

**Project appraisal** is the process of evaluation of a loan proposal of a project to see whether funds if lent can be recovered. It provides an analytical base for the decision making process. Here, the bankers mainly to appraise:

- i) The feasibility of the project i.e. the market demand for the proposed project and the achievability of the projected sales.
- ii) Whether the entrepreneur is technically and managerially equipped in the line of activity proposed to execute the project.
- iii) The technical feasibility of the process of manufacture and the availability of infrastructural facilities.

In the area of pre-sanction appraisal, **Selection of Borrower** is very vital. After obtention of the projections and necessary audited

financial statements, the borrowers should be invited for a discussion to ensure his antecedents like character, credit worthiness, integrity etc.

Since terms and conditions form part of the sanction and are stipulated after taking into consideration all risk aspects, the compliance of conditions precedent has to be strictly adhered to. Here SBI mainly entrusted on the mortgage security and the third party guarantee.

In view of the above we have attempted to see whether the selected branches of SBI operating in Barak Valley have implemented the same tenets of sanctioning loan. Table 7.1.1 shows the bankers view on pre-sanction appraisal process.

**Table 7.1.1**  
**Factors Considered for Sanctioning of Loan**  
**Bankers' View**

Parameters	First	Second	Third	Fourth	Total	Rank
Score	4	3	2	1		
Project Appraisal	4	31	0	0	109	2
Borrower Selection	31	4	0	0	248	1
Security Pledge	0	0	35	0	70	3
Third Party Guarantee	0	0	0	35	35	4

Source: Primary Survey

It is clear from the above table that although NMP entails emphasis on the process of evaluation of a loan proposal, the bank officials of the selected branch sanctioning loan based on the borrowers reputation i.e. emphasized on the selection of borrowers in stead of project appraisal. Bankers', however, of the view that most of the time; due to lack of entrepreneurial skill among the potential borrowers; the bankers need to help them in preparation and finalization of project proposal of potential borrowers. However, regarding pre-sanctioning loan appraisal defaulters' are of different view.

**Table 7.1.2**

**Factor Considered for Sanctioning of Loan - Defaulters' View**

Factors	Respondents	% of Total
Project Appraisal	8	3.3
Borrower Selection	14	5.7
Security Pledge	206	83.7
Third Party Guarantee	18	7.3

Source: Primary Survey

Table 7.1.2 shows that only 5.7% respondents feel that borrower selection has been given maximum weightage while sanctioning of loan. 3.3% respondents feel that evaluation of project is given primary importance before sanctioning of loan and 83.7% respondents argue that the security pledged to the bankers is given maximum weightage. This

clearly indicates that the bank's branches are not following NMP laid down by SBI strictly.

### **7.1.2 Post Sanction Supervision**

In Post Sanction supervision, we have tried to examine how effectively the selective branches are serious about their investment. This segment of NMP is considered as the most important among all. The better maintenance of this part, the smaller is the likely occurrence of NPAs. The attributes considered in this section are physical inspection; follow up of advances high value and small advances, reminders given to borrowers, case by case analysis in order to find out the reasons for irregularity or non-payment of installments.

**Table 7.1.3**  
**Factors considered for Post Sanction**  
**Supervision Bankers View**

<b>Parameters</b>	<b>Standard</b>	<b>Actual</b>
Physical Inspection	2.56	1.10
Individual case of problem loan analysis	2.56	0.73
Reminders for Submission of periodical documents	7.69	7.69
Working on Early Warning Signal	2.56	1.10
Preference for non - legal activities	10.26	6.81
<b>Total</b>	<b>25.63</b>	<b>17.43</b>

Source: Primary Survey

Physical inspection of goods under charge to the bank is an old age method of follow up. Still, an intelligent and meaningful inspection can give invaluable insight into the quality of assets. For maintaining the quality of assets, any lax in this segment of banking supervision would certainly penalize with high cost of non-performing assets. Table 7.1.3 shows that bankers have score only 1.10 out of 2.56 points. Bankers argue that due to shortage of staff and/or overburdened staff, it is not possible for them to monitor each account and they visit only the high value advances. But in the region, NPAs occurs mostly in small value advances i.e. slippage rate of small value advances is higher than that of high value advances.

For handling problem loans, individual case analysis is of utmost importance. Analysis of an account can give a scope to rehabilitate the project of the defaulters and revival of his accounts. NMP of SBI has also given detail guidelines on branch level review of problem loans and reporting. As per NMP of SBI, immediately following the identification of an NPA and potential NPA i.e. problem loans, branches should conduct a review of the account to analyze the problems and to structure an appropriate remedial action with a view to upgrading the loan assets to performing status.

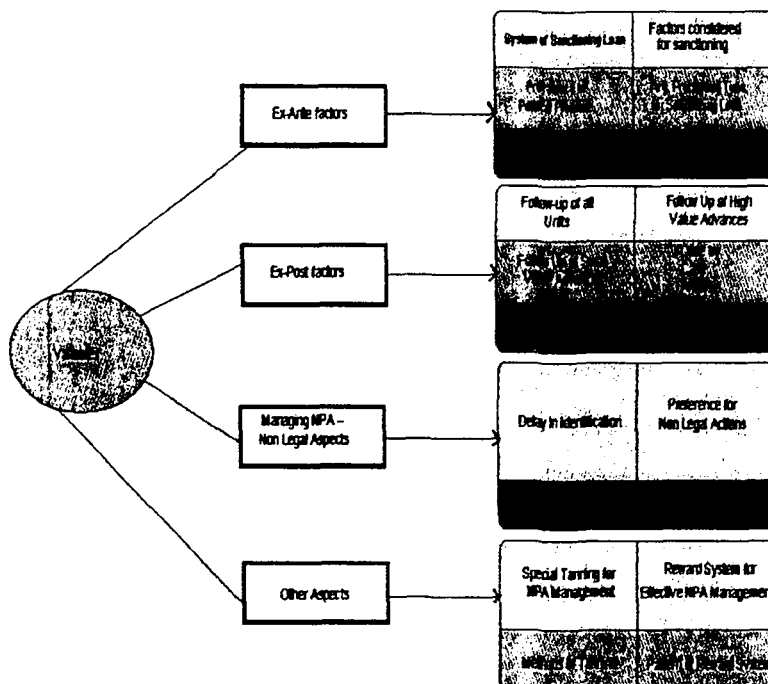
Various tools are available for a banker in follow up of advances, but the borrowal account is the best mirror of health. Thus, delay in submission of periodical financial statement is taken as a signal of potential NPAs. The table 7.1.3 shows that bankers have scored only 1.1 on 2.56 point which indicates that the bankers are frivolous on Early Warning Signals which is obviously the corollary of lax in post sanction



supervision and monitoring of accounts. The above table also shows that the bankers are not keen enough to settle the problem loans through non-legal process. The total bankers' responses expressed in terms of points which depict that the bankers have scored 17.43 out of 25.63. The figure indicates the bank officials of the selected branches are not serious enough in post sanction supervision and work on early warning signals of potential NPAs.

## **7.2 Index of Effective NPA Management**

In an attempt to get an index of indicators of “effective” NPAs management by the selective branches of SBI operating in Barak Valley we have considered the attributes as shown below and devised rather a simple scoring system in order to measure the performance of selected branches with regard to management of non-performing assets .



The overall rating of “effectiveness of NPA management”, as the sum of the scores for individual variables, provides an approximate basis for comparing the performance of the bank. The table 7.3.1 shows the performance level of the SBI with regard to branch levels’ NPA management as perceived by bankers.

**Table 7.3.1**

**PERFORMANCE INDICATORS of NPAS  
MANAGEMENT BANKERS’ VIEW**

<b>Parameters</b>	<b>Standard</b>	<b>Actual</b>
<b>Pre- Sanction Appraisal</b>	<b>30.78</b>	<b>22.42</b>
Present System of Sanctioning Loan	2.56	1.25
Factors Considered for sanctioning loan	10.27	7.69
Existence of Political Pressure	2.56	1.32
Avg. Processing Time	10.26	7.11
No. of times Visit Potential borrower	5.13	5.05
<b>Post - Sanction Asymmetry</b>	<b>33.33</b>	<b>20.59</b>
Follow Up all Units	2.56	1.10
Frequency of monitoring Small Advances	10.26	3.30
Frequency of monitoring High Value Advances	10.26	7.77
Individual case of problem loan analysis	2.56	0.73
Reminders	7.69	7.69
<b>NPAM-Non Legal Aspects</b>	<b>15.38</b>	<b>9.38</b>
Delay in Early Warning Signal	2.56	1.10
Preference for non -legal activities	10.26	6.81
Standard for Negotiation	2.56	1.47
<b>Other Factors</b>	<b>20.51</b>	<b>10.32</b>
Special Training on managing NPAs	2.56	2.56
Methods of Training	10.26	3.88
Reward System for better performance	2.56	1.98
Pattern of Reward	5.13	1.90
<b>Total</b>	<b>100</b>	<b>62.71</b>

Source: Primary Survey

In an attempt to give a numerical figure to the performance level of SBI based on simple scoring model, the score values are expressed in terms of percentage. The overall points score of the bank is 820 which is just above the mean score of 816 which indicates that the current approach to restoring the NPAs position of the bank or to arrest the reasons for NPAs and/or to contain the magnitude within affordable limit of the bank is in serious doubt.

It is evident from the above table Pre- Sanction Appraisal and Post Sanction Monitoring of accounts together constitute about 63% in assessing the effectiveness of NPA management by the bank of which the selected branches' performance of SBI have scored only 43%.

Table 7.3.2 shows the relative seriousness of the indicators of management of NPAs by the selected branches of SBI. Based on the performance percentage the degree of judgment is assigned to the attributes. The performance percentage is calculated as the ratio of actual score value by the standard score value assigned to each of the attributes of non-performing assets management in State Bank of India. Four point scales is used to measure the performance level of bankers with regard to NPAs management viz., Excellent, Good, Fair and Poor. Significance of seriousness of the parameters is indicated by asterisk marks, \*\*\* indicates requires highest and immediate attention of bankers; \*\* indicates requires high level of attention and \* indicates relatively less amount of attention of bankers.

**Table 7.3.2****Index of Performance Parameters of NPAM**

Parameters of NPAM	Percentage Performance	Performance Level	Significance
<b>Pre-Sanction Appraisal</b>			
Existing System of Sanctioning Loan	48.8	Fair	**
Factors Considered for sanctioning loan	74.9	Good	*
Existence of Political Pressure	51.6	Fair	**
Avg. Processing Time	69.3	Good	*
No. of times Visit Potential borrower	98.4	Excellent	
<b>Ex- Post Asymmetry</b>			
Follow Up all Units	43	Fair	**
Monitoring Small Advances	32.2	Poor	***
Monitoring High Value Advances	75.7	Good	*
Individual case analysis	28.5	Poor	***
Reminders	1	Excellent	
<b>Other Non Legal Aspects</b>			
Delay in Early Warning Signal	43	Fair	**
Preference for non - legal activities	66.4	Good	*
Standard for Negotiation	57.4	Fair	**
<b>Other Factors</b>			
Special Tanning	1	Excellent	
Methods of Training	37.8	Poor	***
Reward System	77.3	Good	*
Pattern of Reward	37	Poor	***

Note: Significance of seriousness of the parameters is indicated by asterisk marks.

Source: Primary Survey and Calculated by the researcher.

The table reveals that some of the parameters of non-performing assets management requires urgent attention. Among them monitoring of small advances, individual case analysis of problem loans are most important. Bank officials are not motivated due to lack of incentive system, maximum work load and shortage of staff. Methods of imparting training for handling bad loans need to be changed. Lecture method is an

old age method, along with the other method of imparting training like Role Play; Simulation etc should be given importance.

Delayed reaction on early warning signals by the bankers may also be held responsible for degradation into non-performing status of the performing assets and need an attention of the bankers. In the face of continued disconcerting level of non-performing assets in the bank's branches, effective management of NPAs has become a serious issue. One of the prime reasons is overstressed focus on tackling NPAs i.e. managing loans after slipped into non-performing category. As the loan enters into non performing category; the bank begins to stir up its credit recovery mechanism. The credit officers trying to take actions before the sub-standard asset slipped into doubtful assets. As quickly as the loan officer recognize and accept a bad loan, the NPA officer come with some strategies for improving the recovery process. By the time they take all such measures are taken the doubtful assets turn into loss assets.

Table 7.3.3 shows that according to the defaulters the performance of the selective branches of SBI in managing NPA is much lesser than what the banker perceived. Although factors considered for measuring performance level of the banks are not same.

**Table 7.3.3****PERFORMANCE INDICATORS of NPAS  
MANAGEMENT, DEFAULTERS' VIEW**

<b>Parameters</b>	<b>Standard</b>	<b>Actual</b>
<b>Pre- Sanction Appraisal</b>	<b>60.00</b>	<b>21.7</b>
Existing System of Sanctioning Loan	4.00	1.65
Factors Considered for sanctioning loan	16.00	5.43
Existence of Political Pressure	12.00	5.00
Avg. Processing Time	16.00	6.11
No. of times Visit Potential borrower	12.00	3.51
<b>Ex- Post Asymmetry</b>	<b>28.00</b>	<b>9.05</b>
Post sanction supervision	12.00	0.32
Sort of action taken for delay/non payment	12.00	4.73
Reminders for submission of periodical doc.	4.00	4.00
<b>Non Legal Aspects</b>	<b>12.00</b>	<b>10.20</b>
Settling of sick accounts	12.00	10.20
<b>Total</b>	<b>100.00</b>	<b>40.95</b>

Source: Primary Survey

The above table 7.3.3 shows that according to defaulters pre-sanction appraisal of loan by the selected branches of SBI operating in the region is not effective. The table indicates the selected branches are not following the basic tenets of NPA management as prescribed by SBI.

**Table 7.3.4**  
**Index of Performance Parameters of NPAM**  
**– Defaulters’ View**

Parameters of NPAM	Percentage Performance	Performance Level	Significance of Seriousness
<b>Pre-Sanction Appraisal</b>			
Existing System of Sanctioning Loan	41.25	Fair	**
Factors Considered for sanctioning loan	33.9	Poor	***
Existence of Political Pressure	41.7	Fair	**
Avg. Processing Time	38.2	Poor	***
No. of times Visit Potential borrower	29.25	Poor	***
<b>Ex- Post Asymmetry</b>			
Post sanction supervision	.03	Very Poor	***
Sort of action taken for delay/non payment	39.4	Poor	***
Reminders for submission of periodical doc.	1	Excellent	
<b>Non Legal Aspects</b>			
Settling of sick accounts	85.0	Excellent	

Note: Significance of seriousness of the parameters is indicated by asterisk marks.  
Source: Primary Survey and Calculated by the researcher.

The table 7.3.4 shows that defaulters feel that in all the parameters of non-performing assets management by the selected branches of SBI requires urgent attention. The table shows that bankers have scored only 0.3% in Post sanction monitoring and supervision that implies that this factor of NPAM is required highest attention of bankers. The bankers has scored 33.9% for the parameter factors considered for sanctioning of loan, 38.2% for average processing time taken for sanctioning of loan, 29.25% for physical verification of the potential borrowers and 39.4% for the type of action taken by the bank for delay in payment of installment.

All these parameters are considered as the most serious factors which need urgent and immediate attention of the bank officials.

Table 7.3.5 shows the defaulters' opinion on the factors which may be a causal for degradation of assets into NPAs. It is evident that defaulters are of the opinion that bankers' lazy and reluctant attitude is the prime reason for degradation of performing assets into non-performing category. The time taken for processing of a file is also not impressive. It may be noted here that while interviewing the defaulters, the researcher came across the fact that in some cases the branches takes more than one year to process a file. Borrowers also feel that terms and conditions of sanctioning loan should be made flexible while private banks are offering loan without much effort.

**Table 7.3.5**  
**Defaulters' Opinion on Degradation of Loan**

Sl. No	Factors	Highly Dissatisfactory	Dis-satisfactory	Average	Satisfactory	Highly Satisfactory	Total Score
		5	4	3	2	1	
1	Attitude of Bankers	14	70	112	35	15	771
2	Processing Time of Loan	0	127	49	42	28	767
3	Rate of Interest on Loan	0	21	49	162	14	569
4	Terms and conditions of Loan	0	2	58	146	40	514
5	Repayment Schedule of the bank	0	14	35	21	176	379

Source: Primary Survey



### **7.3 Recovery Measures**

A brief note on the various recovery measures are given below:

#### **Assets Reconstruction Companies (ARCs)**

ARCs are products of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. The Act provides full right to the lenders to acquire the assets without any judicial intervention. The banks are generally keen to dispose of their NPAs and dump them to ARCs at agreed price. Such distressed loan portfolios are subsequently transferred to the Special Purpose Vehicle (SPVs) that will ultimately issue units to the subscribers.

Assets Reconstruction Company (India) Limited (ARCIL) is the first Assets Reconstruction Company (ARC) to commence business in India. ARCIL was sponsored by State Bank of India, ICICI Bank Ltd, IDBI Bank and Punjab National Bank (PNB). It has since adopted a bank-based model of ARC. The share holding pattern of ARCIL comprises the sponsors: 80.01% (ICICI Bank 29.58%, IDBI 20.48%, SBI 19.95%, and PNB 10%); Karur Vysya Bank Ltd 6.38%, Karnataka bank Ltd 5.50%, Citigroup (I) Finance Ltd 4.40% and other Private Bodies 3.71%.

## **Debt Recovery Tribunals (DRTs)**

DRTs have come into force under the parliamentary Act referred to as “The Recovery of Debts due to Banks and Financial Institutions Act 1993”. This Act came into force from 24<sup>th</sup> June 1993. The said Act operates in all states of India except Jammu and Kashmir.

The aim and objective of the Act is to establish Recovery Tribunals for expediting adjudication and recovery of debts due to banks and financial institutions. DRTs are otherwise called “bank Tribunals” meaning only banks and financial institutions can have the benefit of approaching the tribunals for speedier recovery of the dues from the borrowers.

Initially, the pecuniary jurisdiction of the DRTs was restricted for adjudication of Banks’ claims of Rs. 10 lakhs and above. However, the Act provided that the Central Government is empowered to make the Act applicable for Bank’s claims of Rs. 1 lakh and above under Section 1(4) of the Act.

Under the provisions of Section 17 and 18 of the Act, from the date of establishment of Debt Recovery Tribunal, the civil courts (till then having jurisdiction to entertain suits of banks for recovery of dues) cease their jurisdiction, power and authority over suits and even on the execution proceedings related to suits of Rs. 10 lakhs and above that are in process and pending before any civil court. Further, civil courts are barred from entertaining fresh suits and also execution petitions.

## **One Time Settlement (OTS)**

Considering the need for a more realistic approach to reduce the stock of existing and chronic NPAs in all categories, RBI formulated OTS Scheme to be implemented by all banks, containing guidelines for a mechanism for recovery of the stock of NPAs which is non-discretionary and non-discriminatory in the banks. The scheme is envisaged for all PSBs uniformly for maximum realization of the dues.

The scheme was applicable in case of NPAs in all categories inclusive of small scale sector. Cases of NPAs pending with Courts/DRT/BIFR were also included in the purview of this OTS, subject to consent decree being obtained from the Courts/DRTs/BIFR. The scheme was envisaged to be in operation up to 31<sup>st</sup> March 2001 which was subsequently extended to September 2001.

OTS scheme 2003 – RBI announced another scheme of OTS in February 2003, this time extending the scheme to cover NPAs with outstanding up to Rs. 10 crores, with a view to enlarge the scope of the coverage and enable more number of borrowers to take advantage of it and thus, the banks would be benefitted in getting rid of high value NPAs.

The additional features of this scheme were that, it covered NPAs as on 31<sup>st</sup> March 2000 and also such of those cases where provisions of SARFAESI Act, 2002 were invoked. The scheme was envisaged to be in operation till 31<sup>st</sup> October 2003.

## **OTS Scheme 2005**

RBI again formulated guidelines for another OTS Scheme in September 2005 exclusively for NPAs pertaining to SMEs, on the same lines and features similar to that of the OTS Scheme 2003. The Scheme was applicable to NPAs as on 31<sup>st</sup> March 2004 with outstanding balance of Rs. 10 crores and below. The scheme envisaged that applications from eligible borrowers were to be received till 31.3.2006 and the processing under the guidelines should be completed by 30<sup>th</sup> June 2006. The other features of the scheme were on par with those of the earlier schemes.

## **Lok Adalat**

The Lok Adalat Institutions help banks to settle disputes involving accounts in doubtful and loss category with outstanding balance of Rs 5 lakhs. The DRTs are now empowered to organize lok adalats to decide in cases of NPAs of Rs. 10 lakhs and above. The PSBs recovered Rs. 40.38 crores as September 2001 through the forum.

## **BAKIJAI**

The BAKIJAI scheme is mainly to settle disputes involving accounts in doubtful and loss category with Government departments.

## **Compromise Settlement**

Compromise settlement is a negotiated settlement under which bank's branch will endeavour to recover its dues to the maximum extent

possible with minimum sacrifice. This process is initiated after the Bank has exercised its right to set off and/or lien against any deposits of the borrower or lying with the Bank.

Recovery of advances through compromise settlement is accepted as an effective non-legal remedy. A genuine promoter can reduce his losses and gain something from a bad situation. Similarly, bankers can also gain by avoiding costly litigation and costs of administration and carrying cost of NPAs.

#### **7.4 Performance of Recovery Measures in Study Area**

State Bank of India have set up Stressed Assets Resolution Centres (SARCs) across the country for focused resolution of NPAs with outstanding upto Rs.1 crore in SME and Personal segments and Stressed Assets Management Group (SAMG), to take over all NPAs with outstanding of Rs.1crores and above. In the region also, SARC is dealing with such recovery. To measure the performance of such group/centres, a separate study may be recommended.

In attempt to see how the different recovery measures adopted by the bank are successful in managing NPAs effectively in the region, we find that during the study period only 3 cases (of Rs. 12.55 lakh) have been filed under Civil suit; 1 case (of Late Basudev Das of Rs. 38 lakh) has filed under DRT, 158 numbers of cases have been certified for One time Settlement including BAKIJAI but only 32 cases have responded [SARC, SBI, Silchar]. Due to non-availability of sufficient data, it is not possible to study the performance level of various measures in the region.

Table 7.4.1 measures the performance level of various recovery measures as perceived by bankers. The table shows that bankers are highly satisfied with the performance of SARFAESI Act and is ranked one followed by DRT (Debt Recovery Tribunal). ARCs are products of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002. The total score of SARFESI and ARC (262) indicates that more strong is the Act, lesser is the magnitude of NPAs. This is a clear indication towards the necessity of strengthening of SARFESI Act.

**Table 7.4.1**  
**PERFORMANCE OF SOME RECOVERY MEASURES**

Sl. No.	Factors	Highly Satisfactory	Satisfactory	Average	Dis-Satisfactory	Highly Dis-Satisfactory	Total Score
		5	4	3	2	1	
1	SARFAESI Act	20	15	0	0	0	160
2	DRT	5	20	10	0	0	135
3	ARC	0	5	24	5	0	102
4	COMPROMISE SETTLEMENT	0	2	23	7	3	94
5	OTS	0	0	6	29	0	76
6	LOK ADALAT	0	1	1	23	10	63
7	BAKIJAI	0	0	0	24	11	59

Sources: Primary Survey

A large section of defaulters are willing to negotiate and settle an option through compromise settlement.

Compromise settlement is a better option compared to legal action since undertaking regarding enforcement of security and realization value is not there.

**Table 7.4.2**  
**Settling of Accounts- Defaulters' Opinion**

Measures	Number of Respondents	Percent to total
Re-phasement of Loan	75	30.5
Negotiated Settlement	133	54.1
Granting more time for repayment	38	15.4
Seizure and Sale of Security	0	0
Total	246	100

Source: Primary Survey

Table 7.4.2 shows that about 54% defaulters would like to settle their account through compromise settlement. Since each of the compromise offers received from borrowers is unique as the circumstances which necessitate consideration of these as a recovery option varies from case to case. Determining the line of approach for negotiation depends on an analysis of the strengths and weaknesses in a case and the bank will have to follow a rational strategy based on such an analysis. Hence, SBI has not laid down precise and uniform guidelines which can be followed by the branches for considering compromise offers. Reluctant attitude of bankers and lack of precise guidelines of

compromise settlement as a recovery process has not gained momentum in the region.

There are various methods of restructuring of loans. E.g. bank branches can convert the unpaid interest on existing terms loans from the financial year from which the unit first started incurring losses continuously into an interest free term loan styled 'CLEAN Term Loan' (Funded Interest) repayable over a maximum period of 3 years. Respondents who would like to rephasing of existing loan or granting more time for repayment together constitute about 46%. Their accounts can thus be converted into such interest free term loan or rephasing of the existing loan with interest. This will include collection from the borrower entire amount together with interest thereon at the applicable rate.

The entire picture of managing NPA indicates that there is both scope and need for a major reorientation of approach and strategy towards NPAs. The prevailing system of managing NPAs ensures the effective management of NPAs and deeper investigation of the reasons at branch level will of course be necessary to arrest the occurrences of NPAs. However, it is far more important that the strategies are so planned should be put into practice with efficacy, that can only deter the slippage of performing loan into non-performing category.