A review of Non Performing Assets and various problems in RRB's

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Abstract : Regional rural banks were bom with a structure, synthesizing the good features of commercial banks - professional management and financial discipline; and the cooperative banks - local feel, small area of operation, low cost structure and democratic management to improve the credit delivery system in the rural areas. Their main motto is to develop the rural economy by deploying credit for the purpose of development of agriculture, trade, commerce, industry and other productive activities; and extending facilities to the weaker sections in the rural areas. In analysis of the financial performance of regional rural banks, a deductive approach is adopted. This would help in understanding the character and analyzing various factors pertaining to success of business activities of the mral credit institutions in supplementing the mral economy.

NON PERFORMING ASSETS (NPA)

The assets of a bank are classified into two, namely Performing Assets and Non Performing Assets. Standard assets are considered as performing assets as the borrower regularly pays his installments and interest on or before due date and Non Performing Assets are classified as sub standard assets, doubtful assets and loss assets. NPA is defined as a credit facility in which the interest/principal has remained past due for a specific period of time.

If the borrower is unable to pay and the bank is not able to realize its interest/principal during a period prescribed by the RBI, it is classified as NPA. RBI has defined and classified Non Performing Assets as, NPA is a loan or an advance where;

(i) Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,

(ii) In respect of Overdraft or Cash Credit advances, if the account remains "out of order" for more than 90 days,

(iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and

discounted,

(iv) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

(v) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

(vi) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

(vii) In respect of derivative transactions, the overdue receivables representing positive ttmark-tomarket value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

(viii) In case of interest payments, banks should, classify an account as NPA only if the interest is due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

There are many experts who have defined NPAs, among them, the best suited definition of an NPA is; According to Mohan, B. and Rajesh, K., "A nonperforming asset is one which does not generate income for the bank. In other words an advance account which ceases to yield income in a non-performing asset."

ASSET CLASSIFICATION

1. Sub-Standard Assets

A sub standard asset would be a loan, which has remained unreturned (NPA) for a period less than or equal to 12 month.

2. Doubtful Assets

An asset would be classified as doubtful if it remained in the sub-standard category for a period of 12 months.

3. Loss Assets

An asset where the amount has not been written off wholly but loss has been identified by the bank or internal or external auditors or the RBI inspection. These are the assets where loss has

been identified by the bank.

PROBLEMS OF RRBs

RRBs are trying to achieve their social objective by providing credit facility to the poor and are acting as a development bank of the rural poor. The following were the main problems faced by the RRB:

1. Scope of investment is limited: RRBs were having limited scope in investing their surplus fund as

their main is to provide credit facilities to poor and weaker sections of society, i.e., to small and marginal farmers and other weaker sections.

2. Difficulties in deposit mobilization: RRBs are not attracting the deposits from the richer section and are only catering to the needs of poor and not the needs of the rich. They are not able to accept the deposits from NRIs.

3. Poor recovery rate: The recovery performance of the RRBs is very low. High over dues and poor recovery of loan is affecting the functioning of RRB's.

4. Capital inadequacy: Most of the RRBs are facing huge losses in teir balance sheet which is causing capital inadequacy in RRBs. The capital adequacy is the origin to financial soundness.

5. Inadequate finance: RRB's are facing the problem of inadequate finance and are dependent on NABARD to for their further operation.

6. Imbalance in banking facility: The facilities of rural credit is concentrated in some specific states and districts which is creating an imbalance in banking facilities provided by RRB'. They are loosing other prospective group of customers.

7. Lack of Co-ordination: The reason behind the low performance of the RRBs is lack of coordination between RRB's and other financial institution like commercial banks, NABARD and other co-operative bank.

8. Level of NPA: As on 31st March 2015, there are 23 RRBs which are having NPA of above 5%, which needs to be taken care of urgently. As those can affect the performance of RRBs.

9. Tolerance limit: As on 31st March 2015, the gross NPA of RRBs stood at 5.85%, which is higher then the tolerable limit of 5%. The gross NPA needs to be cut down below 5%.

CONCLUSION

Regional Rural Banks were set up to provide credit facilities to the rural people but the NPAs have become a major problem in the recent past for the RRBs NPAs are bad debts and they do not generate income for the RRBs. NPAs not only effect the profitability of the bank but also it requires higher provisioning as a large amount of profit is kept aside as a provision for bad debts, hence it effects the recycling of funds. Constant efforts are being made by RRBs to control the NPAs. In recent past the RRBs were restructured to improve their performance as lot of RRBs were facing heavy losses and the NPAs were rising.

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