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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

NON – PERFORMING ASSESTS IN STATE CO-OPERATIVE BANKS IN INDIA – AN EMPIRICAL STUDY

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ABSTRACT

The present article aims at examining the Non-Performing Assets (NPAs) – Concept and Status in State Co-operative Banks (StCBs) in India. This article analyses the prudential accounting norms relating to capital adequacy, income recognition, assets classification and provisioning standards. The position and growth standard assets, sub-standard assets, doubtful assets, loss assets, gross NPAs, provision for NPAs and net NPAs are discussed with the help of percentage analysis and compound growth rate for all the StCBs in India. With the tightening of prudential norms, the banking sector has been consistently conforming to and adopting international prudential norms and accounting practices. Such strengthening of prudential norms has resulted in increased levels of NPAs for the StCBs. Although StCBs continue to play an important role, the relatively high levels of NPAs have made these banks weak and vulnerable. Gross NPAs of StCBs in India stood at Rs.6168 crores (12.79% of total gross advances) and the net NPAs at Rs.3171 crores as on March 31, 2008 (7.01% of total net advances). These figures pose a severe threat to the profitability, liquidity, and solvency position of these banks. In the context of global competition, it is paramount task for the banks to manage their NPAs more efficiently so that they can change their character from non-performing assets to performing assets.

KEYWORDS

Doubtful Assets, Loss Assets, Non-Performing Assets, Standard Assets, Sub-Standard Assets.

INTRODUTION

StCBs play an important role in providing Short-term, Medium-term and Long-term credit to Farm and Non-Farm Sector directly or through District Central Co-oprative Banks (DCCBs). Although StCBs continue to play an important role, the relatively high levels of NPAs have made these banks weak and vulnerable. Gross NPAs of StCBs in India stood at Rs.6168 crores. (12.79% of total gross advances) and the net NPAs at Rs.3171 crores as on March 31, 2008 (7.01% of total net advances). NPAs which reduce the profitability and liquidity indirectly affect the solvency position of the banks. The NPAs affect the banks in several ways. Not only banks lose income on these advances, but they have also to incur heavy recurring expenditure to maintain them in their books of account.

The impact of NPAs results in lower interest rates to depositors, higher rates of interest to borrowers, higher rates of services charges to all customers, more provisions towards loans losses, more capital contribution and less return to shareholders by way of dividend. Prudential accounting norms has special significance in the new banking system with its focus on efficiency, profitability of the system and protection of investors and depositors interest. Its main elements of prudential accounting norms relating to capital adequacy, income recognition, assets classification and provisionary norms are discussed later.

NON-PERFORMING ASSETS: CONCEPT

The Indian Banking System has several outstanding achievements to its credit, the most striking of which is its reach. An extensive banking network has been established in the last thirty years. The Co-operative Banks are now spread out even into the remote corners of our country. Indian's co-operative banking system is one of the largest in the nation in terms of the branch network of the banks.

Non-performing assets, popularly known as "NPAs", have become a worrying issue in all the public sector banks. NPA is a new phenomenon with regard to the StC Banks. The issue of NPA came into limelight only when the RBI introduced the concept of asset classification, income recognition and provisioning norms to assess the credit risk of the StC Banks in their balance sheets on 31.03.1997.

With the view to enhance operational efficiency, productivity, profitability and to accomplish the objective of implementing the best international practices in the StC Banks especially with regard to revenue recognition, asset classification, provisioning, capital adequacy and Investments Portfolio, the RBI introduced a new set of prudential norms during the year 1996.

Banks were advised to implement the instructions from the accounting year 1996-97. Each branch was directed to undertake the exercise of the classification of assets making provisions and these should be verified by competent officials from the internal inspection departments/controlling offices. The banks should also get the classification, etc., verified by Auditors and a certification to this effect obtained from the Auditors. The Balance Sheet for the year ended 31.3.1997 should reflect the financial position of the banks as arrived at on the basis of instructions now issued to banks.[1]

With a view to preparing the Profit and Loss account and the Balance Sheet, reflecting the bank's actual financial health, a proper system for recognition of income, classification of assets and provisioning on a prudential basis have been made necessary. Regarding provision requirement, provisions should be made on the basis of classification of assets into four different categories - standard, sub-standard, doubtful and loss assets.

NON-PERFORMING ASSET (NPA) - MEANING

An asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is defined generally as a credit facility in respect of which interest and/or instalment of principal has remained "past due" for two quarters or more. An amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. It was, however, decided to dispense with the "past due" concept with effect from 31 March 2001.

SCOPE OF NPAs

A Non-Performing Asset (NPA) is an advance where.

- Interest and/or installment of principal remains overdue for a period of more than 180 days in respect of a term loan,
- The account remains out of order for a period of more than 180 days in respect of an overdraft/cash credit (OD/CC),
- The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted,
- Interest and/or instalment of principal remains overdue for two harvest seasons or for a period not exceeding two half years in the case of an advance granted for agricultural purposes.
- Any amount to be received remains overdue for a period of more than 180 days in respect of any other accounts.[2]

The mid-term review of the Monetary and Credit Policy of the Reserve Bank of India for the year 2002-03 announced a 90-day-norm for the recognition for loan impairment which has been extended to the StCBs/DCCBs from the year ending 31.03.2006. With effect from March 31, 2006, NPAs include amounts.

- Interest and/or installment of principal remaining overdue for a period of more than 90 days in respect of a term loan.
- The amount remains out of order for a period of more than 90 days in respect of a Overdraft/Cash Credit (OD/CC).
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- In respect of direct agricultural loans the existing norms of classification of NPA will continue. (All direct agricultural advances will be classified as NPA of the interest and/or installments of principal remains overdue for two harvest seasons but for a period not exceeding two half years). But, in respect of other agricultural loans for allied agricultural activities, 90 days norms will apply.
- Any amount to be received remains overdue for a period of more than 90 days in respect of all other accounts.[3]

PRUDENTIAL ACCOUNTING NORMS

Prudential norms were initially introduced for commercial banks and extended later to the co-operative banks functioning under the regulations of the RBI. However, co-operative banks differ structurally and operationally from commercial banks. Since commercial banks have more potential in all spheres, the co-operative banks face various obstacles to their existence. Commercial banks have flexibility in operations while the co-operative banks are not only denied flexibility, but are also bound to comply with the rigid rules and regulations of the Registrar of Co-operative Societies (RCS).

As far as the lending policies are concerned, the Manager of a commercial bank has got discretionary power either to sanction or reject a loan proposal whereas the manager of a State Co-operative Bank is controlled by certain rules in granting some loans even if they are not viable.

The StCBs were advised by the RBI to implement the prudential norms for income recognition, assets classification and provisioning from the accounting year 1996-97.[4]

CAPITAL ADEQUACY NORMS

The RBI introduced the risk assets ratio system for banking in India as a capital adequacy measure. Under the system, the balance sheet assets, non-funded items and other off-balance sheet exposure were assigned risk weight according to the prescribed percentage.

The weighted aggregate of the degree of credit risk is expressed as percentage of the funded and non-funded item. The aggregate is used to determine the minimum capital ratio. The risk-weighted assets ratio approach to capital adequacy is more equitable as institutions with a high risk assets profile have to maintain a higher level of capital. The integration of the on-balance sheet and the off-balance sheet exposures into the capital ratio would promote risk sensitivity and skills to manage the risk and structure balance sheet in a prudent manner. Thus, capital adequacy is the ratio of capital to risk-weighted assets. According to the Bank of International Settlement (BIS) norms, co-operative banks were required to maintain a minimum capital to risk asset ratio of eight per cent.[5] Adoption of this norm will be advantageous in many ways. It does not distinguish between small or big, commercial or co-operative, banks.

However, co-operative banks are different from commercial banks and as such capital adequacy norms as applied to commercial banks cannot be made applicable to co-operative banks. It is felt that the RBI should help co-operative banks in getting restrictive provisions of the State Co-operative Act removed and then prescribe a time schedule for attaining capital adequacy norms.[6]

As per the RBI guidelines, the minimum capital adequacy ratio of nine per cent should be maintained by the Indian Banks since March 2000 according to the Basle Committee Recommendations.[7] Commercial banks are required to achieve nine per cent Capital Risk Weighted Assets Ratio (CRWAR) by 31st March, 2000.[8] It should be noted that the Narasimham Committee has suggested an increase in capital adequacy ratio to 10 per cent to be achieved by 2002.[9]

The Narasimham Committee has also suggested that there should be no further recapitalisation of banks from the Government budget. However, the Committee is silent on recapitalising the co-operatives which must be strengthened for ensuring adequate flow of credit to the rural sector.

INCOME RECOGNITION NORMS

1. INCOME RECOGNITION POLICY

The policy of income recognition is based on the record of recovery and the unrealized income should be taken to the Profit and Loss Account by the StCBs/DCCBs. However, in the case of certain states where the State Co-operative Act/Rules and Audit Manual provide for taking such unrealized interest to the income head in the P&L A/C, it is necessary for those StCBs/DCCBs to make full provisioning for an equivalent amount by charging of the P & L A/C.

(i) Fee, commission and other income may be treated as income only when the account is classified as standard. Besides, a matching provision should be created to the extent such items were treated as income in the previous year but not realized in the subsequent year.

(ii) Fees and commission earned by banks as a result of renegotiation or rescheduling of outstanding debts should be recognized on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

(iii) Even in the case of credit facilities backed by Government guarantee, overdue interest can be taken to P & L account only if matching provision is made.

(iv) The bills purchased/discounted should be treated as overdue if they remain unpaid. Interest may be charged to such bills and may be taken to P & L Account provided matching provision has been made.

(v) Accrued interest on investments may be taken to P & L Account till maturity. However, it has to be provided for fully, if interest is not realized on the due date/the date of maturity.

2. REVERSAL OF INCOME

If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, interest accrued and credited to income account in the corresponding previous year, should be reversed or provided for, if it is not realized. This will apply to Government guaranteed loan accounts also. In respect of fees, commission and similar incomes that have accrued and credited to the income account in the corresponding previous year should be reversed or provided for with respect to past periods, if uncollected.

3. APPOROPRIATION OF RECOVERY IN NPA

Interest realized on NPAs may be taken to the income account provided the credits in the accounts towards interest are not out of fresh/additional credit facilities sanctioned to the borrowers concerned. In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due) banks should adopt the accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

NORMS FOR ASSET CLASSIFICATION

The main elements of prudential norm relate to asset classification. Earlier Commercial banks classified their advances into eight health codes. i.e. Satisfactory, Irregular, Sick : Viable/under nursing, Sick : Non-viable/sticky, Advances recalled, Suit filed account, Decreed debts and Debts classified by the bank as Bad/Doubtful. Now, assets are classified into the following four categories.

STANDARD ASSETS

Standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to business. Thus in general all the current loans, agricultural and non-agricultural loans, which have not become NPA may be treated as standard assets.

SUB-STANDARD ASSETS

A Non-performing asset may be classified as sub-standard on the basis of the following criteria.

a) An asset which has remained overdue for a period not exceeding three years in respect of both agricultural and non-agricultural loans should be treated as sub-standard.
b) In the case of all types of term loans, where instalments are overdue for a period not exceeding three years, the entire outstanding in term loan should be treated as sub-standard.
c) An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for at least two years of satisfactory performance under the renegotiated or rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance with the conditions.

DOUBTFUL ASSETS

A non-performing asset may be classified as doubtful on the basis of following criteria.

As asset which has remained overdue for a period exceeding three years in respect of both agricultural and non-agricultural loans should be treated as doubtful. In the case of all types of term loans, where instalments are overdue for more than three years, the entire outstanding in term loan should be treated as doubtful. As in the case of substandard assets, rescheduling does not entitle a bank to upgrade the quality of advance automatically. A loan classified as doubtful has all the weakness inherent as that of a sub-standard account. There is also a problem of weakness in the collection or liquidation of the outstanding dues in such an account in full.

LOSS ASSETS

Loss assets are those where loss is identified by the bank/auditor/RBI/ NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset which is considered unrealizable and/or of such little value that its continuance as a doubtful asset is not worthwhile, should be treated as a loss asset. Such loss assets will include overdue loans in cases (a) where decrees or execution petitions have been time barred or documents are lost which are legal proof to claim the debt, (b) where the members and their sureties are declared insolvent or have died leaving no tangible assets, (c) where the members have left the area of operation of the society (refers to the borrower in whose name the respective loan account with StCB/DCCB) leaving no property and their sureties have also no means to pay the dues (d) where the loan is fictitious or when gross misutilisation is noticed, and (e) amounts which cannot be recovered in case of liquidated societies.

PROVISIONING NORMS ON THE BASIS OF ASSET CLASSIFICATION

Provisioning is necessary considering the erosion in the value of security charged with the banks over a period of time. Therefore, after the assets of DCCBs/StCBs are classified into various categories (viz. standard, sub-standard doubtful and loss assets) necessary provision has to be made for them. The details of provisioning requirements in respect of the vsrious categories of assets are explined below:

PROVISION FOR STANDARD ASSETS

Banks are required to make provision on standard assets at a minimum of 0.25 per cent of the total outstanding in this category. The provision made on standard assets may not be reckoned as erosion in the value of assets and will form part of owned funds of the bank. The advances granted against term deposits, National Savings Certificates (NSC) eligible for surrender, Kisan Vikas Patras (KVP), Indira Vikas Patras (IVP), Life policies, staff loans would attract provision of 0.25 per cent prescribed for standard assets. The provision towards standard assets need not be netted from gross advances and should be shown separately as "Contingent provision against standard assets" under "other liabilities and other provisions".

PROVISION FOR SUB-STANDARD ASSETS

Since it is probable that a bank incurs some loss in such accounts, a general provision of 10 per cent is required to be made on the total outstanding amount in the case of all loan accounts categorised as sub-standard.

PROVISION FOR DOUBTFUL ASSETS

(a) A provision of 100 per cent of the advances is to be made to the extent to which the advance is not covered by realizable value of securities to which the bank has valid recourse and the realizable value is estimated on a realistic basis.

(b) Over and above the provision on the unsecured portion, a provision of 20 per cent, 30 per cent and 50 per cent of the secured portion has to be made depending upon the period for which an asset has remained overdue (Chart -1).

CHART-1: CRITERIA FOR PROVISION FOR DOUBTFUL ASSETS

Criterion	% Provision
Overdue above 3 years and up to 4 years	20
Overdue over 4 years, but not exceeding 6 years	30
Overdue exceeding 6 years	50

PROVISION FOR LOSS ASSETS

The entire loss assets should be written off. If the assets are permitted to be retained in the books for any reason, 100 per cent of the outstandings thereof should be fully provided for.[10]

REASONS FOR NPAs

There are numerous reasons for the high level of NPAs ranging from both policy and environmental factors (Narasimhan). According to RBI as much as 47% of NPA originates from priority sector. There are other forms of direct credit, like nursing sick accounts on accounts of pressure from the Government. The populist 'loan meals' and waiver of debts granted to large number of peasants, artisans and rural poor also result in mounting NPAs in the subsequent period. The high level of NPAs can also be attributed to the inherent weakness prevalent in our legal systems. The legal procedures in India are tardy and torturous and it takes years to settle a case. No doubt, part of NPAs may have been the result of banker's inaptitude or bonafid decisions going wrong, but a substantial chunk can perhaps be attributed to political meddling which polluted the repayment ethos. Various studies have been conducted to analyses the reasons for NPA (Majumdar). Whatever may be the reason, complete elimination of NPA is impossible.

The main reasons for NPAs in the StCBs are given as follows:

- Absence of professional management.
- Faulty credit deployment and poor recovery.
- Strict application of prudential norms without much consideration to the peculiar nature of the clientele of these banks.
- Dual control of StCBs by the State governments and the RBI/ NABARD.
- Inadequate support from RBI/NABARD in meeting the fund-needs of these banks.
- Corruption, nepotism, favoritism etc.
- Undue intervention by political bigwigs.

Sluggish condition prevailing in the agricultural sector.

STATEMENT OF THE PROBLEM

The NPAs of the Indian banking system have assumed large proportions and are a continuing deterrent to the smooth flow of credit to the productive sectors of industry and agriculture. The high level Committee on financial system (with Sh.M. Narasimham chairman) constituted by RBI (1991) to made recommendations on finacial sector reforms also observed that serious problems are plaguing the financial sectors which is reflected in decline in productivity and efficiency and erosion of profitability due to deterioration in the quality of loan portfolio restricting income generation and enhancement of capital funds, accompined by inadequate loan loss provisions. Concept of NPAs in its present forms came into existence with the recommendations of Narasimham Committee implemented by RBI in 1996. Level of NPAs as per these guidelines were first reflected in the banks balance sheets of 1996-97.

RELEVANCE OF THE STUDY

In India, predominantly agricultural in nature, depends greatly on agricultural finance. short-term credit forms a major portion of the agricultural credit disbursed by StCBs. The impact of more lending to agricultural sector might have contributed to a major portion of the NPAs in the banks. Since 31 StCBs play a predominant role in agricultural finance through 370 DCCBs, it has been considered highly relevant for the study. Any fruitful suggestion emanating from the study may bring great relief to the economy as a whole.

OBJECTIVES

This research has been undertaken with the following two objectives:

1. To study the concept of Non-Performing Assets and prudential norms related to management of NPAs.
2. To assess the position and growth of Non-Performing Assets in StCBs in India.

METHODOLOGY

The data collected from secondary sources for the eight years from 2001- 2008. The data published by Reserve Bank of India (RBI) and National Bank for Agricultural and Rural Development (NABARD) is suitably compiled and analysed for the purpose of study. The statistical results are obtained by using SPSS Version 10.

Compound growth rates were estimated for the classification of assets in StCBs. An exponential function of the following type was employed to estimate the Growth rates.

Yt = abt

Where,

Yt = Classification of assets

a = Intercept

b = Parameter

t = Years

Compound Growth Rate = (Anti log of b-1) x 100

LIMITATION OF THE STUDY

The present study covers a period of eight years for secondary data from 2000-01 to 2007 -08 for study purpose. Data were available up to 2007- 08 during the field work and accordingly data up to 2007-08 were alone used for analysis. This may not be fully relevant to the later period.

RESULT AND DISCUSSION

TABLE – 1: TRENDS IN NPAs OF StCBs DURING MARCH 2001-2008 (Rs in crore in per cent)

S.No	Asset Type	2001	2002	2003	2004	2005	2006	2007	2008	CGR
1	Standard Assets	25959 (86.97)	27626 (86.03)	26514 (80.84)	28557 (81.35)	31274 (83.74)	32949 (83.03)	40650 (85.84)	42060 (87.21)	10.26
2	Sub-standard Assets	2178 (7.30)	2403 (7.48)	3535 (10.78)	3288 (9.37)	2961 (7.93)	2763 (6.96)	2957 (6.24)	2779 (5.76)	3.10
3	Doubtful Assets	1520 (5.09)	1821 (5.67)	2443 (7.45)	3010 (8.57)	1975 (5.29)	2292 (5.78)	2625 (5.54)	2652 (5.50)	7.20
4	Loss Assets	191 (0.64)	261 (0.81)	306 (0.93)	250 (10.71)	1136 (3.04)	1680 (4.23)	1122 (2.37)	737 (1.53)	18.40
5	Total Gross NPAs (Total of 2 to 4)	3889 (13.03)	4485 (13.96)	6284 (19.16)	6548 (18.65)	6072 (16.26)	6735 (16.97)	6704 (14.15)	6168 (12.79)	5.90
6	Total Gross Advances (1 to 4)	29848 (100)	32111 (100)	32798 (100)	35105 (100)	37346 (100)	39684 (100)	47354 (100)	48228 (100)	6.20
7	Total Provision for NPAs	N.A	N.A	3178	3670	2982	3558	3200	2998*	-1.49
8	Total Net NPAs (5-7)	-	-	3106 (10.49)	2878 (9.16)	3090 (8.99)	3177 (8.79)	3504 (7.94)	3171 (7.01)	2.08
9	Total Net Advances (6-7)	-	-	29620	31435	34364	36126	44154	45230	9.53
10	Gross NPA coverage Ratio (7/5) (%)	-	-	50.57	56.05	49.11	52.83	47.73	48.61	-

∗ Provision, N.A-Not Available

(-) Figures in Bracts at Sr. No.1 to 5 are percentage to respective year's Gross Advances (Sr.No.6) and at Net NPAs (Sr.No.8) to Net Advances (Sr.No.9).

Basic Source : (i) Report on Trends and progress of Banking in India. 2000-01 to 2007-08. (ii) NABARD

Note : CGR-Compound Growth Rate.

Table 1 shows the trends in NPAs during the study period for all the 31 StCBs in India. Gross NPAs of StCBs (Table-1) stood at Rs. 6168 crores, as on March end 2008 consisting of Rs. 2779 crores in sub-standard category, Rs.2652 crores in doubtful and the remaining Rs.737 crores in loss category where the solvage value in negligible. In percentage terms, Gross NPAs amounted to 12.79 per cent of gross advances consisting of 5.76 per cent in sub-standard, 5.50 per cent and 1.53 per cent in doubtful and loss categories respectively. Though in absolute terms the gross NPAs went up from Rs. 3889 crores, as on March end 2001, to Rs. 6168 crores in 2008 growing @5.90 per cent per annum, there was decline in percentage terms from 13.03 per cent to 12.79 per cent during said eight years period due to obvious increase of the denominator at a rate faster than the numerator. As the provision against NPAs come down from Rs. 3178 crores to Rs.2998 crores during 2003 to 2008 growing @ -1.49 per cent per annum the net NPAs went up from Rs. 3106 crores in 2003 to Rs.3171 crores in 2008 growing @ 2.08 per cent per annum. The coverage ratio of provision to gross NPAs was 50.57 per cent in 2003 and come down to 48.61 per cent in 2008.

FINDINGS

1. NPAs include sub-standard assets, doubtful assets and loss assets. The growth rates of sub-standard assets, doubtful assets and loss assets were positive in all the StCBs in India with 3.10 per cent, 7.20 per cent, and 18.40 per cent per annum respectively. The positive growth rates of these assets would have led to falling profitability liquidity and solvency position of these banks.
2. The growth rates of Gross NPAs and Net NPAs in all the StCBs in India were 5.90 per cent and 2.08 per cent per annum respectively. The problems of gross and net NPAs were relatively high during the study period increase in provision for NPAs will lead to decrease in net NPAs and vice versa. NPA is not just problem for banks, they are bad for the economy.
3. Positive growth rates of standard assets were found in all the StCBs with 10.26 per cent per annum. The task of containment of NPAs by arresting slippage of accounts from performing assets to non-performing assets.
4. The negative growth rates in provision for NPAs in all the StCBs with -1.49 per cent per annum. The StCBs are requested to necessary additional provision has to be made for the various categories of assets such as standard sub-standard, doubtful and loss assets.

SUGGESTIONS

1. An association of borrowers at branch level should be organised to inculcate the accountability of borrowers to repay the loans promptly.
2. There should be a proper Co-ordination between the StCBs and the DCCBs to solve problems associated with the NPAs.
3. Organize more recovery camps, compromise settlements schemes and 'Lok Adalats'.
4. There should be Memorandum of Understanding (MOU) between government agencies like 'THADCO' and trade association for both pre-loan appraisal and recovery of NPAs.
5. Bank should be very cautious in identifying genuine borrowers and ask them to provide complete information to be stored in a data base and monitor the loan accounts closely to prevent slippage of loan accounts into NPA category.

6. Each StCBs should set up a separate recovery branch to take over its bad and doubtful debts at a discount so that the responsibility of managing NPAs can be reduced.
7. The banks should maintain a proper information system using the Information Technology.
8. The StCBs in India should have to educate their employees on NPAs and their effect on the banks performance through periodic awareness programmes.
9. The StCBs in India should introduce incentive/reward system to staff engaged in collection process.
10. The banks should update the address of borrowers, so that the recovery process can be followed up. Banks should have personal contact with the borrowers through periodic meets under the KYC (Know Your Customers) norms.

CONCLUSION

The NPAs of StCBs in India are considered relatively high by international standards. NPAs are a severe drain on the profitability of the banks. On the one hand, no income on such accounts can be recognized and on the other hand, certain amount of provision has to be made from the profit, depending on the asset classification and availability of security. This has double - impact on profitability – No interest on such dead asset and Need to maintain Capital Adequacy Ratio (CAR). Profit of majority of StCBs were affected by the sudden introduction of the concept of NPAs and Income Recognition norms. NPAs is an important parameter in the analysis of financial performance of banks. So, "Successful management per-supposes that the right type, right time and right amount of credit is given to the right type of client". Reduction of NPAs is necessary to improve the profitability of banks. To solve the problem of existing NPAs qualitative appraisal, supervision and follow up should be taken up for the present advances to avoid future NPAs.

SCOPE FOR FUTURE RESEARCH

1. Influence of Socio-Economic factors of Borrowers in NPAs: A case study.
2. Provisioning for NPAs in Co-operative Banks: A case study.
3. A study of credit Risk Management in StCBs.
4. A study of NPAs in Sector-wise and Term - wise classification of StCBs.
5. Asset-Liability Management in Co-operative Bank- A study.

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