

Strategies for reducing Non-Performing Assets

Banks are now fully vigilant about the quality of their loan assets and several steps are being taken by them to reduce non-performing assets. Each bank is required to have a loan recovery policy' giving details of the strategies to be adopted for recovery of dues, period-wise targetted level of reduction in NPAs, norms for entering into compromise proposals involving sacrifice/waiver, factors to be taken into account before considering waivers, decision levels, reporting to higher authorities and monitoring of write-off/waiver cases. The policy framed by the bank should be placed before its Board for its approval. Proper monitoring of the policy at periodical intervals is equally necessary. Special Recovery Cells may be set up at regional levels and adequate number of Recovery Officers may be appointed at branches having sizable NPAs and their recovery progress may be monitored on monthly/fortnightly/weekly/daily basis. The following techniques may be used by banks for reducing their NPAs:

1. Rephasement of loans.
2. Rehabilitation of potentially viable units.
3. Acquisition of sick units by healthy units.
4. Compromise with borrowers.
5. Calling up the advances and filing of civil suits.
6. approaching debt recovery tribunal.
7. Recovery of advances given under Government sponsored programmes.
8. Establishment of asset recovery branches.
9. Write-off of the outstandings.

Various Steps for Reducing NPAs-

It may be observed from the above that various techniques can be used for reducing NPAs. If one technique fails while dealing with a particular NPA,

banks may have to try with other techniques for that case. Various steps to be taken for reducing NPAs, can be summarised in the following chart:-

Various steps for reducing NPAs

Study the problem of NPAs-Branch-wise,
amount-wise and age-wise

Prepare a loan recovery policy and
strategies for reducing NPAs

Create special recovery cells at head
office/zonal office/regional office levels

Identify critical branches for recovery

Fix targets of recovery and draw time
bound action programme

Select proper techniques for solving the
problem of each NPA

Monitor implementation of the time-bound
action plan drawn

Take corrective steps wherever found
necessary while monitoring the action
plan and make changes in the original
plan, if necessary.

In addition to solving the problem of existing NPAs, quality of appraisal, supervision and follow-up be improved for present advances to avoid future NPAs. Banks should examine the viability of a project before providing financial assistance. It is necessary to ensure that the project will generate sufficient return

on the resources invested in it. The viability of a project depends upon technical feasibility, marketability of the products at a profitable price, availability of financial resources in time and proper management of the unit. Sanction of financial assistance after proper appraisal alone is not sufficient for recovery of advances. Disbursement of funds according to the requirements of the project and close supervision and follow-up are also equally essential. If the proper care is taken for appraisal, supervision and follow-up of the advances, further NPAs can be avoided. Although risk is a part of lending, it can be minimised by taking necessary precautions which may help in avoiding NPAs. Special care should be taken for those advances which are showing irregularities and likely to become NPAs. Steps taken at the appropriate time may help in avoiding NPAs. Banks should not only take steps for reducing present NPAs, but necessary precaution should also be taken to avoid future NPAs.

1. Replacement of loans.
2. Rehabilitation of potentially viable units.
3. Acquisition of sick units by healthy units.
4. Compromise with borrowers.
5. Calling up the advances and filing of civil suits.
6. Approaching debt recovery tribunal.
7. Recovery of advances given under Government sponsored programmes.
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