Research Paper Management

Non – Performing Assets Pertaining to Housing Finance

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ABSTRACT

This study analysis the Non- performing assets of banks particularly in housing finance. Banking in India originated in the last decades of 18th century. The first bank of India, which started in 1786 and Bank of Hindustan, both are now defunct. Presidency Bank (Bank of Bengal, Bank of Calcutta, Bank of Madras) played its importance role. During 19th century the State Bank of India got established(1806). This is the oldest resigning bank available in India till date.

The Allahabad Bank is the next oldest Bank, which is functioning today (1865). This is the Bank called as the "OLDEST JOINT STOCK BANK AVAILABLE IN INDIA" It has 2402 branches. Latter number of Public sector banks and private banks started its operation. The nature and function of banks have changed as the time has changed.

The problem of Non-performing assets have been receiving greater attention since 1991 in India.

The Reserve Bank of India defines Non-performing assets as a term loan inclusive of unpaid interest, when the installment is overdue for a period of six months or more or on which interest, when the installment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more The Narasimham committee recommended a number of steps to reduce NPA. in the 1990's the Government of India (GOI) introduced a number of reforms to deal with the problems of NPA.

To improve the efficiency and profitability of banks the NPA has to be Payment Scheduled. There is no one single method for reducing the NPA multiple strategies should be adopted from the beginning. It is highly improbable to have zero percentage NPA.But at least steps have to be taken to reduce the NPA in banks particularly in housing finance to maintain and complete with international standards.

KEYWORDS

INTRODUCTION

The constitution of India recognizes the right to live and have a livelihood as a fundamental right. This includes the right to housing policy. Housing demand is a universal problem, being one of the prime necessities of life. Housing demand still needs to be fulfilled. This is because of the shortage of funds and inadequacy of financial institutions, coupled with as increase in cost.

STRUCTURE OF THE HOUSING FINANCE INDUSTRY:

Traditionally housing finance was dominated by a handful of private sector institutions. These housing finance companies commended 70% market share in FY 1999, which has subsequently fallen to 50% in FY 2004 as a direct result of policy changes that permitted the entry of this banks into this industry. Banks Now control 40% of this market and continue to show Explosive growth of 39.33% shown by commercial banks .

PROBLEMS AND ISSUES WITH THE HOUSING FINANCE INDUSTRY IN INDIA:

Variation in standards

The housing sector is unrepressed varying standards and practices among the lending community, be it in origination and documentation or monitoring and supervision.

Aggressive approach may lead to defaults

Growing competition coupled with reduction in risk weights on housing loans has led the lending institutions to adopt aggressive practices.

Security deficits due to norms

Many primary lending institutions are making terms and conditions of sanction flexible and liberal, thus enabling the borrowers to avail the loans even more than the value of security for long tenure of 20 to 25 years. The large quantum of institutional finance in the property transaction may lead to the problem of security deficit.

Due diligence issues

Increasingly, there have been instances of dilution in due diligence on the part of lenders. Sometimes, loans are sanctioned without strictly complying with laid down rules, system and procedures.

Lock of uniformity of norms amongst industry players

The norms which are followed by the banks are not uniform and they are flexible to major expert.

HOUSING FINANCE SERISCES

Housing finance has not only become popular but the procedure for obtaining a loan has become so simplified that housing loans are easily available. This may be attributed to the change in the housing policy of both the central and staffs governments. A redeeming feature of Indian housing finance is the recent entry of commercial banks in a big way.

NON – PERFOMISNG ASSETS

The banking sector plays larger role in channel sing money from one end to other end. It helps almost every person in utilizing the money at their best. The banking sector accepts the deposits of the people and provides fruitful return to people on the invested money. But for providing the better returns plus principal amounts to the clients, it becomes important for the banks to earn. The main source of income for banks are the interest that they earn on the loans that have been disbursed to general person, businessman or any industry for its development.

Banks earn profit by way of channel sing money from one end to another end. Indian Banking sector has recently facing the serious problem of Non-performing Assets. This problem has been emerged largely in Indian banking sector since three decade. Due to this problem many public sector banks have been adversely affected to their performance and operations. In simple words Non-performing Assets problem is one where banks are not able to recollect their landed money from the clients.

The problem of **NPA** is danger to the banks. Because it destroys the healthy financial conditions of them. The trust of the people would not be any more if the banks have higher **NPA.** So the problem of **NPA** must be tackled out in such a way that would not destroy the operational, financial conditions and also the image of banks. Recently, RBI has taken numbers of steps to reduce **NPA** of the Indian banks.

DEFINITION OF NON PERFORMING ASSETS
RBI Notifications
"Non – performing Asset" (referred to in these directions as" **NPA"**) means:

with effects from 31,2003, means;

An asset, in respect of which, interest has remained part due for six months.

A term loan inclusive of unpaid interest, when the installment is overdue for a period of six months or more.

RESONS FOR GROWTH OF NPAs
The quantum of **NPA** has been calculated and put at different figures mainly due to absence of proper statistics and the method on the basis adopted for calculating the percentage of **NPA** in relation to either the total assets of the bank or the amount of loan post folio or on the basis of the number of the accounts or the sing of the out standing advances.

Recently little attention was paid to the real reasons as to why and how non performing assets have appeared in the books of the banks and also the books of financial institutions. For a large numbers of years, the banks have been taking credit in its books, on basis of accrued interest income, even for the amount of periodic interest that was not actually paid by the borrower. This was done by raising debit in suspense account and crediting amount equal to the periodic interest in the loan account of the borrower

BANKS COULD NOT PREVENT LOAN DEFAULTS
This is mainly due to procedural lapse and in adequate control mechanism and loosening of bank supervision. In order to over come this problem each bank should evolve structured letter of sanction, a detailed loan agreement and elaborate security documents including all the supporting documents.

Following data is relating to **NPA** declared by banks during the financial year 2009-2010.

Source	Punjab	Amount (Rs. in crores)
Daimio Jag ran dated 29th Nov 2010	National Bank	853
	Dena Bank	185
	Bank of Baroda	515
	Canada Bank	884
	India Bank	388
	Syndicate Bank	419
	UCO Bank	371
	State Bank of India	1990
	Vijay a Bank	479
	Alahabad Bank	750
	Union Bank of India	513
	Bank	7347

Impact on Indian Economy: After **NPA** issue came into picture the share price of those concerns or companies fall on 25th Nov 2010 which highlights in this issue.

The data given below is as per data published in dainik jagaran on 26 Nov'10.

Bank / Company	% Decrease in Price
Pubjab National Bank	6.38
Canara Bank	5.85
Axis Bank	3.35
LIC Housing Finance	0.98
DB Reality	9.99
JP	5.19
DLF	4.13
India Bulls	5.22
Unitech	6.04

RECOMMENDATIONE TO REDUCE NPA
In order to reduce NPA in housing finance bank the following measles can be adopted to help the market to perform more efficiently.

Adoption of uniform practice: the hosing finance inductee relating to malteds like appraisal and documentation, Repayment of housing loans, Conversation of tried sale loans into loading rate loans.

Greater transparency: dealings with the bellowers to enable them to Exercise informed choice about product and leading institutions promotion securitization.

The securitization act has been en acted for dealing with and souring problem of NPAS where these securities are purchased by SPV established in form of a trust, set up the non – banking finance company it self and these after securable are sold to metal tend as the investor by issue of pass through certificates (PTC). Autonomy to bumps: we propose to the bank, through RBI, to under take lending a remunerative avenue. The RBI has pesmilted bank to grant loans for housing schemes up to certain limits from own resource (where installments are progressive).

ALM Techniques and schemes should be put in place for a proper asset liability management and Explain the generally followed ALM technique to counter an issue that could threat ion the very existence of an institution.

Payment schedule can be elides customized or parameterized where the bank has to supervise welter the client have paid the Installment in regular intervals. It not so due procedure has to be adopted to recover the due.

CONCLUSION
Non-Performing Assets in banks are serious problem where due steps has to be taken to reduce. It is highly improbable for any bank to have zero percentage NPA. But at least Stapes have to be taken to reduce the NPA in banks particularly in housing finance to maintain and Complete with international Standards. To impure the efficiency and Profitability of banks the NPA has to be payment Scheduled.

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