ABSTRACT

With the introduction of international norms for income recognition, asset classification and provision in the banking sector Non-Performing Assets (NPA) has emerged as one of the major challenge for all banks. Banks at present are recognised and ranked not only on the basis of their profitability but also on the basis of their NPA. Profit margins of banks are reduced only because of large amount of provisioning for NPA. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net worth of banks. The problem of NPAs is not only affecting the banks but also the whole economy. This paper analyses the major issues and challenges faced by the banks due to NPA.

Keywords: Non-Performing Assets, Reserve Bank of India, Narsimham Committee

INTRODUCTION

Across the globe, banking sector acts as a catalyst for economic growth and plays a vital role in providing the financial resources to the various sectors of the economy. In emerging economics like India banks are more than mere agents of financial intermediation and carry the additional responsibility of carrying forward the social agenda also. Because of this close relationship between banking and economic development, the growth of the economy is intrinsically correlated to the health of the banking industry. One of the crucial roadblock of the banking growth is the rising level of Non-Performing Assets (NPA) in recent years, essentially termed as dormant assets,

Increasing NPAs have a direct impact on banking profitability. Banks are forced to make provisions for bad loans out of profit which adversely affects its business, financial strength and reputational risk. NPAs reflect the degree of risk and quality of assets of bank and profitability of a bank. The NPA growth involves reduced income from assets and the necessity of provisions, which adversely impacts the overall profits and shareholders’ value. In 1993, RBI issued guidelines based on recommendation of the Narsimham Committee that mandated identification and reduction of NPAs be treated as a ‘national priority’ because the level of NPA acts as an indicator showing the banker credit risk and efficiency of allocation of resources. In accordance with International practices and as per the recommendation made by the Committee on the Financial System, the RBI has introduced in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts. Banks are advised to ensure that while granting loans and advances to borrowers, a pragmatic repayment agenda may be fixed on the basis of cash flows. This would make easier to the bankers for recovering the outstanding dues and simultaneously reduce the risk for degradation of asset quality. Risk is inherent in banking business. However, back of risk is possible if remedial measures are undertaken by the Government as well as RBI.
NPA: A CONCEPTUAL FRAMEWORK

Lending and borrowing are the two main function of the bank. Borrowing function does not carry any risk but lending function carries credit risk. When the borrowers of any bank fail to make payments the interest as well as the principal amount of their obligation in time, then the question of NPA arises. An asset (loan) becomes non performing when it ceases to generate income (interest as well as principal when they fall due) for the bank.

Banks as a financial intermediary has to keep the wheels of finance moving. NPA necessarily creates a bottleneck in the smooth flow of credit in the desired direction and has an adverse impact on the economy by arresting the recycling of funds. Hence there is always a felt need to avoid bad loans and arrest fresh accretion of NPA. As a matter fact, the biggest challenge of the banking sector across all countries of the world is management of NPAs at the lowest possible level, as it is unavoidable.

DEFINITION OF NPA

As per master circular of RBI, NPA is defined as an asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.

A non performing asset (NPA) is a loan or an advance where;

1. Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
2. The account remains ‘out of order’ for more than 90 days in respect of an Overdraft/Cash Credit (OD/CC),
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
4. The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
5. The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
6. 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.
7. In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

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

‘Out of Order’ status

An account should be treated as ‘out of order’ if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as ‘out of order’.

‘Overdue’

Any amount due to the bank under any credit facility is ‘overdue’ if it is not paid on the due date fixed by the bank.
ASSET CLASSIFICATION

Categories of NPAs

Banks are required to classify nonperforming assets further into the following three categories based on the period for which the asset has remained nonperforming and the realisability of the dues:

Substandard Assets

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values.

Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

ASSETS QUALITY OF ALL COMMERCIAL BANKS

With effect from financial year 1992-93, as per the recommendations of the Narasimham Committee and the prudential guidelines issued by the RBI, banks were required to classify their entire loans and advances into four categories: Standard, Sub-standard, Doubtful and Loss Assets. Table I shows the different categories of Assets in percentages of public sector banks (PSBs), private sector banks (PVSBs), Foreign Banks (FB) and All schedule commercial banks (SCBs). Table I represents two years data i.e. 2016 and 2017 for analysing and comparing the different categories of Assets. Standard assets are decreasing in 2017 as compare to 2016 in case of all categories of banks except foreign banks. But Loss assets have increased in 2017 as compared to 2016 in case of all categories of banks except foreign banks. The levels of NPAs are therefore increasing day by day which creates a major problem for the growth of our economy.

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>year</th>
<th>Standard Assets %</th>
<th>Sub-Standard Assets %</th>
<th>Doubtful Assets %</th>
<th>Loss Assets %</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSBs</td>
<td>2016</td>
<td>90.7</td>
<td>3.4</td>
<td>5.5</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>88.3</td>
<td>3.0</td>
<td>8.4</td>
<td>0.4</td>
</tr>
<tr>
<td>PVSBs</td>
<td>2016</td>
<td>97.2</td>
<td>0.9</td>
<td>1.6</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>95.9</td>
<td>1.4</td>
<td>2.3</td>
<td>0.4</td>
</tr>
<tr>
<td>FBs</td>
<td>2016</td>
<td>95.8</td>
<td>1.6</td>
<td>1.6</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>96.0</td>
<td>1.2</td>
<td>2.4</td>
<td>0.4</td>
</tr>
<tr>
<td>ALL SCBs</td>
<td>2016</td>
<td>92.5</td>
<td>2.8</td>
<td>4.4</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>90.7</td>
<td>2.5</td>
<td>6.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India 2016-17
STATUS OF NPA LEVEL OF ALL COMMERCIAL BANKS

Table-2 presents sector wise status of NPAs in the banking sector. Total NPAs of banks are broadly classified into two categories viz, priority sector and non-priority sector. The sector wise distribution of NPAs of Public Sector Banks, Private sector Banks, Foreign Banks and all schedule commercial banks 2016 and 2017. This table shows the priority sector NPAs are decreasing in all categories of banks except foreign banks in 2017 as compared to 2016. But non-priority sectors NPAs are increasing in case of all categories of banks except foreign banks in 2017 as compared to 2016. Analyses of this table shows that foreign banks are comparatively better in managing NPAs in comparison to PSBs, PVBs and all SCBs.

### Table-2: Sector-wise NPAs of Banks (As at end –March) (Amount in percentage)

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>year</th>
<th>Priority sector</th>
<th>priority sector</th>
<th>Non-priority sector</th>
<th>Total NPAs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Agriculture MSE</td>
<td>other</td>
<td></td>
</tr>
<tr>
<td>PSBs</td>
<td>2016</td>
<td>25.5</td>
<td>8.9</td>
<td>13.1</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>24.1</td>
<td>8.5</td>
<td>11.8</td>
<td>3.7</td>
</tr>
<tr>
<td>PVBs</td>
<td>2016</td>
<td>21.0</td>
<td>8.2</td>
<td>9.6</td>
<td>3.1</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>18.0</td>
<td>7.2</td>
<td>8.7</td>
<td>2.2</td>
</tr>
<tr>
<td>FBs</td>
<td>2016</td>
<td>14.3</td>
<td>0.3</td>
<td>2.3</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>17.8</td>
<td>0.5</td>
<td>3.1</td>
<td>14.2</td>
</tr>
<tr>
<td>ALL SCBs</td>
<td>2016</td>
<td>24.8</td>
<td>8.6</td>
<td>12.5</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>23.3</td>
<td>8.3</td>
<td>11.3</td>
<td>3.7</td>
</tr>
</tbody>
</table>

**Source:** Report on Trend and Progress of Banking in India 2016-17

### TYPES OF NPA

**Gross NPA**

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. Gross NPA reflects the quality of the loans made by Banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

\[
\text{Gross NPAs Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}
\]

**Net NPA**

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the Central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following:

\[
\text{Net NPAs} = \frac{\text{Gross NPAs} - \text{Provisions}}{\text{Gross Advances} - \text{Provisions}}
\]
OBJECTIVES OF THE STUDY

1. To know the reason behind rise in NPA
2. To know the challenges faced by the banker for NPA
3. To find out the effect of NPA on the growth of economy
4. To suggest various measures for NPA management.

LITERATURE REVIEW

Literature review is essential in any research as it offers valid explanation for research initiative. As a matter of fact, the asset quality and NPA are one of the highly researchable areas of the banking sector across the world. A good number of published articles are available in the area of NPA in the banking industry from several perspectives. However because of space and contextual constraints, selective studies undertaken in recent years have been reviewed here under.

Janakiraman, U., (2008) observed that losses in the sub-prime mortgage market triggered reaction in other financial markets and affected the entire sector shaking the trust and confidence in the investors in the system as a whole. The paper examined the crisis, highlighted the areas which are likely to be scrutinized and discussed while trying to distil the lesson to be drawn and their implications for policy.

Bhatia, T., (2009) concluded that the global economic crisis had a significant impact on the economies and financial systems of several countries. The paper refers to the success of Indian banks in the accumulation of capital. India’s banks have maintained healthy capitalisation levels in the past decade. The author observed that it is necessary and beneficial for the banks to raise capital through hybrid instruments in order to maintain a healthy Capital Adequacy ratio. Banks’ healthy and improved capitalization cushions the impact of higher NPAs.

Meenakshi and Mahesh (2010) in their exploratory paper examined the trends of NPAs at global level. One interesting observation was that most of the countries that fall under the higher “NPA/Total Loan” ratio Category are in the Asian region and also examined India from various magnitudes and also identification of the problem and recovery mechanism to a great extent. It also shows that NPA in the priority sector is higher than non – priority sector. The paper also discusses the role of joint liability groups (JLGs) or self help groups (SHGs) in enhancing the loan recovery rate.

Kaur and Saddy (2011) in the research paper A Comparative Study of Non-Performing Assets of Public and Private Sector Banks attempted to clarify the concept of NPA, the factors contributing to NPAs, the magnitude of NPAs, reasons for high NPAs and their impact on Indian banking operations. Besides capital to risk weightage assets, ratio of public and private sector banks, management of credit risk and measures to control the threat of NPAs were also discussed.

Kavita, N., (2012), emphasized on the assessment of non-performing assets on profitability its magnitude and impact. Credit of total advances was in the form of doubtful assets in the past and an adverse impact on profitability of all public sector banks and all banks groups.

Bebeji (2013) examined consolidation and asset quality of banks in Nigeria over the period of 2002 to 2008. The study used historical and descriptive methodology with t-test to confirm the research hypotheses based on the secondary data collected from 10 sampled banks. The results indicated that consolidation had positive effects on NPAs. It also indicated that credit policies and administration were not sufficient enough to prevent rising NPAs.

Murari, K., (2014) in his paper made an attempt to analyze how efficiently public and private sector banks managed their NPAs. Based on secondary data collected for the selected categories of the banks from the RBI publications. Revealed that public sector banks have witnessed a continuous increasing trend in gross and net NPAs in comparison to private sector banks and there is statistical significant difference in the mean of gross and net NPA of public and private category of Indian banks.
Prasad, S.R., (2015) explained the NPA management of through various ratios and time series projection method. Management of non-performing assets in Indian Public Sector Banks with special reference to Jharkhand: This study was basically confined to management of NPA in public sector banks in Jharkhand. The study outlines the reasons for NPAs through figures and graphs and few recommendations to improve NPA.

Patel, M. P. and Sharma, S., (2016) conducted a comparative study of NPA in ICICI Bank and HDFC Bank to examine the operation of the banks in lending and credit policy and the respective position of NPA. Descriptive research was used and observed that it is not possible to totally eliminate the NPAs in the banking industry but can only be minimized. It was suggested that banks need to follow a proper policy appraisal, regular supervision and proper follow-up of advances to avoid NPAs. The banks should not only take steps for reducing present NPAs, but necessary precaution should be taken while lending money to avoid future NPAs to accumulate.

Sengupta, R. and Vardhan, H. (2017) in their paper made a comparative analysis of the two banking crisis episodes – 1990s and 2008. For such early recognition and action, strong governance and proactive banking regulation is critical. Such a move ensures subsequent NPA resolution has minimal effect on bank capital.

**REASONS BEHIND INCREASE IN NPA**

A performing asset does not become a non performing asset overnight. Prior to becoming a NPA, it gives sufficient signals in advance that steps can be taken to prevent. There are a number of factors which are directly or indirectly responsible for growing NPAs. Banks, borrowers as well as Government are equally responsible for rising NPA.

**BANKS**

**Improper selection of borrowers**

The selection of borrowers most often is not based on a sound and transparent mechanism. As a result, banks very often end up in lending huge amounts to unworthy borrowers.

**Delay in financing**

The red-tape syndrome peculiar to Indian administration has its fair share in the banking sector as well. Due to delay in financing, the cost of projects escalates time and again and this in turn, adversely affects the borrower’s ability to repay.

**Stiff competition**

With the entry of private banks, foreign banks and NBFCs(Non Banking Financial Companies) in to the banking systems, the competition in the sector has increased manifold. In order to sustain in the market and to grow up the balance sheets, banks are forced to lend more without verifying the genuineness of the creditor which turned the assets into NPAs.

**Poor interaction with the borrowers**

After the sanction of the loan, bank officials hardly have any interaction with the borrowers. The workload in the office makes it virtually impossible for them to provide the necessary counselling to the borrowers from time to time.

**Undue pressure from the management**

The quantum of lending is considered to be one of the parameters of efficiency. Consequently, lending becomes target oriented and managers and the branch level are pressurised by top management to increase the loan portfolio without proper verification.
No direct inquiry

The banks usually hold no direct inquiry or make field visit at the time of sanction. The decision to grant loans are mostly based on secondary documents/assets which often turn out to be superfluous.

Lack of supervision and follow up

The post sanction period of a loan is very vital for its effective utilisation. Banks rarely inquire about the pattern and mode of utilisation of the loan. This lack of follow up action mostly results in misuse and misappropriation.

Single layer processing

The process of sanction is usually done by managers single handed, providing little scope for cross-verification by others. This makes lending faster and easier, but also creates enough room for bogus borrowing.

Multiple lending facilities to a single borrower

Sanction of multiple loans to a single borrower creates excess burden and if one of the loan become NPA due to any unavoidable situation, all the other loans turns bad. This results growing up of total NPAs.

Poor enforcement

Banks do not have the legal or administrative power to bring the defaulters to book. The law enforcement agencies are reluctant to apply their full weight to recover the bad loans. Attachment of property by court courser is tedious, time consuming and sometimes also bypassed on humanitarian grounds.

BORROWERS

Wilful default

Some borrowers make it a habit not to repay loan in time. Many wistful defaulters use the easy sum in more lucrative ventures like housing, real estate, personal loans instead of repaying.

Industrial sickness

Many of the industrial houses who availed bank loans don’t work well on account of mismanagement, obsolete machinery, and outdated method of production and so on. In such cases, the banks that have financed such industrial units fails to recover their finances in time.

Natural calamities

Sometimes well-meaning borrowers failed to honour their financial commitment to the banks for reasons beyond their control. Heavy losses suffered on account of natural disasters like flood, cyclone, earthquake, tsunami, reduces their ability to pay and the banks have to bear the burden of NPA.

Lack of demand

High production against lack of demand forces producers to sell their produces at a lower price. Farmers committing suicide for their inability to get a fair price for their produces is a case in point. In this case too, the bank suffers for the finances it has provided.

Unemployment

In India, a substantial share of the loan portfolio is provided as education loans by banks to the students for pursuing higher education. But due to technically inability of the borrower to get a job after completion of the course is a main reason for maximum education loan being declared as NPA.
New entrants in the market

Government of India is providing various entrepreneurship programmes to unemployed youths by the help of its various departments to encourage growing their own business. As a result, a number of business entities are coming to the market which creates threats to the old players. Hence the reduction in customer base and less profit margin to sustain existing customers slows down the business as well as put the excess burden to repay the loan which results to NPAs.

Recession

Economic stagnation has been a worldwide regulator phenomenon for quite sometimes now. Because of globalisation, no country in the world is immune to the effects of economies down-turn. When such periods of recession continue for long, borrowers feel the heat and go bankrupt.

Political influence

Loan recovery has become a complex procedure due to undue political interference. The establishment doesn’t show the will to help banks recover their dues for fear of losing popularity and vote banks. Punitive measures like attachment of mortgaged property can’t be implemented without active police and executive support.

GOVERNMENT

Various credit schemes launched by Government

Government of India has launched various credit schemes such as: Mudra, DRI loans for weaker sections and Stand up India, etc. for banks to benefit the small entrepreneurs, SC/ST and minority communities, women entrepreneur to start their own business without any security. Though these are good initiatives for development of our country still so many borrowers take advantage of such schemes to cheat the banks and financial institutions. A portion of the loan is backed by the Government. Hence some borrowers deliberately choose not to payback their loans resulting in NPAs.

Frequent reshuffle in RBI norms

The RBI, the highest regulatory body of banking activities in India, makes matters worse by frequently changing lending norms and other policy decisions. Frequent change hampers productivity and breeds confusion and reduces the profitability of the banks.

ADVERSE IMPACT OF NPA

Banks play an important role in the growth of economy in our country. However, NPA stands as a stumbling block for banks as well as the growth of the economy. The efficiency of a bank reflected on its balance sheet and profit and loss account. But due to NPA, more profits are retained for provisioning the non performing assets. NPA has an adverse impact on the profitability as well as the liquidity position of the bank. The important impacts of NPA are follows:

Profitability

Profits are the measure of overall efficiency of a bank. The higher the profits , the more efficient is the business considered. For a bank, return on assets is the only source of income. As return on assets is reduced due to increase in NPA, it directly affects the profitability of the banks.

Liquidity

Liquidity means the ability of a concern to meet its current obligations as and when these became due. To meet the current obligations, continuous flow of funds must be there. But due to NPA, inflows of funds are considerably curtailed. Thus, banks are not able to meet their current liabilities fully.
Solvency
Solvency refers to the ability to meet the long term obligations. Growing NPA affects the solvency position of the banks. NPA considerably stifles long term obligations of the banking sector and thereby affects the smooth functioning of the banks and also the growth of the economy.

Goodwill
Goodwill is a fixed and valuable asset for all banks. Banks at present are ranked on the basis of their NPA level. High level of NPA reduces the goodwill of the banks. Once goodwill is adversely affected, investors won’t show their interest to invest in the shares of the bank and public also hesitate to deposit their surplus in the bank. It will directly affect the business of the bank.

Working capital
The funds which are required to meet the day to day expenses of the business are called working capital. Working capital of a bank is also affected by NPA. Insufficient of current assets is caused by increase in NPA. NPAs affect recycling of bank credit and adversely affect working capital.

Cost of Management
Bank has to bear time and efforts of management due to NPA. Extra efforts are given by the bankers to handle NPA which involve additional cost for banks. Banks are also appointing new employee only for handling for NPA which is additional cost for the banks. Management of NPA increase the cost of operation of the bank which is ultimately reduce the profitability and highly affect the growth of economy.

RECENT MEASURES TO TACKLE NPAS
NPA continuously haunts the banking sector. In the year 1991, Narasimham committee recommended many reforms to handle NPAs. The Government has taken a number of measures to tackle the growing NPA levels of banks. The important ones are:

Debt Recovery Tribunal (DRT)-1993
DRTs were established on 1993 to facilitate the debt involving banks and financial institutions with their customers. DRTs can take cases from banks for disputed loans above rupees ten lakhs. As compared with the ordinary court procedures, DRTs were able to handle large number of cases within a short period. DRTs were able to solve the disputed cases and reduce the NPAs of the banks.

Credit Information Bureau of India Limited (CIBIL)-2000
CIBIL was set up in 2000 with a prime motive to provide information to financial institution relating to fraud, ID management, etc which help banks to prevent loans falling into bad loans.

Lok Adalat(2001)
The Indian Banks Association (IBA) has been issuing guidelines to banking institutions to taking up of cases for settlement through Lok Adalats which have been given statutory status under the Legal Service Act, 1987. Lok Adalat is organised by every state authority or district authority. It is one of the best dispute redressal mechanism. Basically the banks are taking advantage of Lok Adalat in compromise settlement of their NPAs.

SARFAESI ACT-2002 (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest)
SARFAESI Act, 2002 is a legislation that helps financial institutions to ensure asset quality in various ways. The act was framed to tackle the problem of NPAs by applying different mechanism. It allows banks to auction residential or commercial properties to recover loans. This law is only applicable in case of secured loans. As per this Act, initially banks issue a notice to the borrowers to pay the outstanding dues (including principal and interest dues) within 60 days. If borrowers fail to pay the
dues, then banks have the right to take the possession of the secured asset without intervention of any court. Finally banks has the right to sell the seized property by means of auction after publishing the auction notices in two newspapers one of which must be a vernacular language.

**Asset Reconstruction Company(ARC)-2002**

Asset Reconstruction Company is a specialised financial institution that buys NPAs or bad loans from banks at a negotiable price and helps banks to clean up their balance sheet. The SARFAESI Act, 2002 provides the legal basis for the setting up ARC on the guidance of RBI. NPAs are acquired by ARCs at a fair price in an arm’s length principle. They have to value the acquired bad assets in an objective manner and used uniform process for assets that have same features.

**Corporate Debt Restructuring(CDR)-2005**

CDR mechanism is a voluntary non statutory mechanism under which financial institutions and banks come together to restructure the debt of companies facing financial difficulties due to internal or external factors in order to provide timely support in such companies. It is an organisation which achieves its outstanding obligations and reducing the burden of the financial institution by decreasing the rate spread and increasing the time to pay the obligations back.

**Joint Lenders Forum-2014**

The RBI implemented the Joint Lender Forum in 2014 with an aim to identify the stressed asset and take corrective action plan (CAP) to preserve the economic value of that asset. The joint lender forum is a dedicated grouping of lender banks that is formed to speed up decisions when an asset of excess of rupees of one hundred crore or more turns out to be a stress asset. It is one of the measures which had taken by RBI for fighting with the NPAs.

**Strategic Debt Restructuring(SDR)-2015**

The SDR scheme was introduced by RBI in June 2015 to help banks to recover their loans by taking control of the distressed listed companies .Under SDR, banks who have given loans to a corporate borrowers gets the right to convert the full or part of their loans into equity shares in the loan taken company. The SDR scheme will provide relief to various stakeholders of debt laden companies. As bank will take over the business of the company and will sell it afterward, the process of inducting new management will improve the companies operation which will afterward help bank to recover its bad loans.

**Scheme for Sustainable Structuring of Stressed Assets(S4A)-2016**

The RBI introduced the Scheme for Sustainable Structuring of Stressed Assets in 2016 to strengthen the lenders ability to deal with stressed assets and put real assets back on track of entities by providing an avenue for reworking financial structure. Under this scheme the total assets of the bank are classified into sustainable and unsustainable assets .Sustainable assets are those, which the banks think the borrowers can repay it from their current inflows. But unsustainable assets are converted into equity share.

**Prompt Corrective Action(PCA)-2017**

The Reserve Bank of India has taken a new step i.e. Prompt Corrective Action on June 5th, 2017 to control over NPA. Under this framework, banks are able to maintain a sound financial health. The actions which are taken are divided into two parts one is Structured Action and another is Discretionary Action.

**CONCLUSION**

Economies move in cycles of upturns and down turns and banks normally respond to the cyclical fluctuations and accordingly the demand for credit fluctuates NPAs are a part and parcel of banking activity and if experts are to be believed it cannot be totally erased form economics. However, when
the NPA volume and quantity persists without being recognised and resolved and starts hampering normal bank lending, it adversely affects the economy as a whole. Any banking activity which invariably ends up affecting public finances, as in case of NPA is far from desirable. It is highly essential therefore building adequate regulatory and comprehensive reforms in bank regulations and supervision.

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