

UNIT 21 – BANKING - Banking Awareness- All About NPAs

Hello Readers,

On the account of upcoming SBI PO Exam for the post of Probationary Officer, here we are providing you all a post on All About NPAs, which is Re-post for all the new readers of BankersAdda. Hope you all like the post!!

What are NPA's (Non Performing Assets):

A mortgage in default would be considered non-performing, after a prolonged period of non-payment(90 days).

The lender will force the borrower to liquidate any assets that were pledged as part of the debt agreement. If no assets were pledged, the lenders might write-off the asset as a bad debt and then sell it at a discount to a collections agency.

Here is an example to help you understand what NPA's are and how Banks counter it-

Mr. X decided to start a business for that he needed money (the fuel) , X had 25% of the money in his pocket, he decided to go through the route of **Initial Public Offering**(IPO) to generate 25% more by offering

his company shares to public , the remaining 50% he borrowed from Lena bank by **mortgaging** his papa's land.

Days passed and the company started to do badly then to worse and the loan installments lapsed month on month, Lena bank issued warning but X continued the bad practice for more than **90 days** (condition for NPA) and the bank labeled X as defaulter and the loan as a Non Performing Asset.

Now what X will do?

He could take his case against the bank to **Debt recovery tribunal** (DRT- A court for such cases).

What are Lena bank's options?

In **2002**, Govt. gave bank's a lifeline called as **SARFAESI Act** (Securitization and Reconstruction of Financial Assets and Enforcement of security interest Act)

With this Act Lena bank has the power to take possession of Mr.X's property or can transfer this to some other ownership.

What bank will do with the acquired property?

- Ø Bank can use this for their own purpose like , opening a new branch on it, installing of ATM's etc.
- Ø Bank can advertise in newspapers for the auction of the property acquired and could auction them on any pre decided day.
- Ø Bank can sell the property to **ARC** (Asset Reconstruction Company), these are registered companies under RBI, they buy such assets from banks and sell them at higher prices to gain profits.

NOTE- Total amount of NPA's are around 4.4% of the total assets of banks in India and expected to increase to 4.7% till the end of FY'15

