

UNIT 1 - NPA and SARFAESI Act, 2002



Non-performing Assets (NPAs)

Non-Performing Assets are loans given by a Bank or financial institutions where the borrower defaults or delays interest or principal payments.

According to RBI, any loan repayment which is delayed beyond 90 days in continuation has to be identified as an NPA.

NPA's are further sub-classified into

- **Sub-Standard Assets** are those which are non-performing for a period not exceeding two years.
- **Doubtful Assets** are those loans which have remained non-performing for a period exceeding two years but which are not considered as loss assets.
- **Loss Assets** is one where loss has been identified but the amount has not been written off, wholly or partly. In other words, such as asset is considered non-recoverable.

==>> Further read - [Everything you need to know about NPA](#)

SARFAESI Act, 2002

- The SARFAESI Act provides for setting up of asset reconstruction companies for acquiring financial assets including NPAs which helps in clearing balance sheet of banks.
- The most important provision of the Act is regarding the enforcement of security interest of banks without interventions of courts.

To enforce the security as aforesaid, the following conditions need to be fulfilled

1. The borrower has committed a default in payment and account is classified as NPA.
2. The secured creditor has given a notice in writing to the borrower to discharge his liabilities within 60 days from the date of receipt of such notice.
3. The borrower has failed to comply with the said notice.
4. The amount due from the borrowers is more than Rs. 1 lakh.

In case the borrower fails to discharge his liability fully within the stipulated period of 60 days, the secured creditor may take recourse to one or more of the following measures.

1. By taking possession of the secured assets including the right to transfer by way of lease, assignment or sale for releasing the secured assets.
2. By taking over the management of the secured assets.
3. By appointing a manager to manage the secured assets.
4. By requiring any third party who has acquired the secured assets from borrower.
 - In case of a consortium advance, the aforesaid actions can be taken only when secured creditors representing 75% or more in value agree for such action.

IMPORTANT QUESTIONS

1. What is a balance on Current Account?

A country's receipt minus payment for current account transactions equals the balance of trade plus net inflows of transfer payments.

2. What are ways and means advances?

Ways and means advances are the short-term credit from the central bank (RBI) to the government which allows the government to meet its immediate requirements. If the government wants money above this it will have to borrow by issuing bonds, which are auctioned by RBI.

3. Who was the first Governor of Reserve Bank of India?

Sir Osborne Smith was the first governor of RBI of India.

4. What is board for Financial Supervision?

The Reserve Bank of India performs the function of financial supervision under the guidance of the Financial Supervision Board (BFS). The board was constituted in November 1994, as a Committee of the Central Board of Directors of the Reserve Bank of India.

5. What is Islamic Banking?

Islamic Banking refers to a system of banking or banking activity that is consistent with Islamic (sharia) law principles and guided by Islamic Economies. In particular, Islamic Law prohibits unsury, the collection and payment of interest. India's first Islamic bank was first opened in Kerala.