

UNIT 3 - NPA - Meaning, Types and Causes



One of the most important questions asked in bank interviews is "Why NPA is so high in PSU banks ?"

If you are going to appear for even clerk interviews then you should learn this concept.

NPA Full Form : Non-performing Assets

What is NPA

NPA Meaning (Non-performing Assets) - All those assets which don't generate regular income are known as NPA.

Types of assets

Standard assets :- Assets which are generating regular income to the bank

Sub-standard assets :- An asset which is overdue for a period of more than 90 days but less than 12 months

Doubtful assets :- An asset which is overdue for a period of more than 12 months.

Loss assets :- Assets which are doubtful and considered as non-recoverable by bank, internal or external auditor or central bank inspectors

Sub-standard assets, Doubtful assets and Loss assets are NPA.

Causes of NPA

Default - One of the main reason behind NPA is default by borrowers.

Economic conditions - The Economic condition of a region affected by natural calamities or any other reason may cause NPA.

No more proper risk management - Speculation is one of the major reason behind default. Sometimes banks provide loans to borrowers with bad credit history. There is a high probability of default in these cases.

Mis-management - Often ill-minded borrowers bribe bank officials to get loans with an intention of default.

Diversion of funds - Many times borrowers divert the borrowed funds to purposes other than mentioned in loan documents. It is very hard to recover from this kind of borrowers.