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The Philosophy:

Pravara Management Review (PMR) invites innovative and preferably research-based articles in any area of management.

Practicing managers are welcome to submit data-based case studies for publication. All authors should aim at advancing existing thought and/or practices in the relevant field and hence should endeavour to be original and insightful. Submissions should indicate an understanding of the relevant literature and the contribution of the submissions to this body of research. Empirical articles should have an appropriate methodology and be able to relate their findings to the existing literature. Methodological articles must attempt to show how they further existing theory.

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Potential Contributors: Every research-oriented individual and institution, and every research student, faculty working anywhere in the world is invited to explore fruitful connections with PMR.

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NPA in Housing Loan - A Case Study

Dr. Sarang Shankar Bhola*

Pratibha Ajit Jagtap**

ABSTRACT

NPA is recent but one of major reforms in banking sector focuses on profitability of bank. Present research is descriptive inferential case study in nature, studied NPA position of housing loan in a cooperative bank situated at semi urban area which is surrounded by villages. Study found majority of NPA accounts holders are farmers and major reason of NPA is irregular income. Housing loan primarily render for repairing of house and natured as short term loan. Present paper is an effort to throw light on intricacies of housing loan accounts in cooperative banks in the vicinity of rural area. Article concludes that housing loan should be routed through organized sector that has reasonable control over farm products to come over problem of NPA.

Keywords: NPA, Cooperative Bank, Rural Area, Housing Loan.

Introduction:

Non Performing Asset is a reform in banking sector. This is the result of the recommendation of Narsihnam committee, Mr. Narsihnam Ex-Governor of

Reserve Bank of India. committee made recommendations regarding smooth functioning, increasing efficiency, productivity and profit earning capacity of banks. Among these, NPA is one of important recommendations. These recommendations were accepted by Govt. of India and made applicable by the Reserve Bank of India to nationalized and commercial banks from the financial year 1992-93. By making some changes, it was considered for calculations for urban co-operative banks from 1993. Prior to this reform, interest due on advances was considered as an income and shown on the profit account of the bank, even interest may not be received. Due to this procedure, only the figure of profit used to increase which was a fictitious profit. The concept of NPA is very important which affect on financial health of a bank. Narsinhnam committee suggested classification of assets into performing and non-performing assets. This case study is concentrated on the study of NPA position in Rajarambapu Co-operative Bank Ltd., Peth, Branch-Market Yard, Islampur, covering NPA in Housing Sector Loans in the year 2008.

Research Methodology:

Rajarambapu Co-operative Bank Ltd., Peth is renowned co-operative bank in Sangli District. Out of total loan disbursement, most of the loans are disbursed in Agriculture, Housing and Self Employment Sector. Housing Loan is considered as priority sector loan. Our culture also considers owning housing is prime need. Still, there are incidences of loans being bad in this segment. Present case study has been conducted in Rajarambapu

Co-operative Bank Ltd., Peth. Branch-Market Yard, Islampur. the branch come under a category of sub urban area. The said branch is surrounded by villages.

The objectives of this case study is to study NPA position and reasons for NPA in housing sector in the financial year 2007-2008 w.r.t. said branch. Along with this, study indulges in other financial components like working capital, deposits, loans, profits of said branch. There are 41 NPA accounts under the Housing Loan in the year 2008 in said branch. For present study, total 41 NPA accounts have been selected. The data collected has been analyzed with help of Percentage and Rank Correlation. Data regarding reasons for NPA in housing sector has been collected from NPA account holders through structured schedule.

Review of Literature

Numerous studies are made to examine the issues relating to NPAs of banks.

Kamble P.S. (2004) examined through their study that the NPA of all categories of Co-operative Banks in India were significantly higher. The number of co-operative banks is in liquidation. The growing NPAs have made co-operative banks to incur rapidly growing expenditure on provisions and contingencies. As a remedial action for the problem of NPA, he suggested that co-operative banks should formulate a comprehensive and realistic lending policy which will facilitate to avoid the NPAs or to keep them at lowest possible level as prescribed by banking sector reforms. The anti-NPAs lending pattern should be determined. Borrowers should be made conscious about the need and urgency of discharge loans, the impact of NPAs on the overall working of banking sector. Joshi G.B. (2005) states better prospects to urban co-operative banks through good governance. While Ramu Nand Kharade Swapna. (2007) have explained challenges before urban

* Assistant Professor, Karmaveer Bhauao Patil Institute of Management Studies and Research, Satara.

** Lecturer, RIT Institute of Management, Sakharale, Islampur, Dist. Sangli.

co-operative banks. Ingle D.V.(2005) has highlighted some factors responsible for NPA like trade cycle, Govt.s Plan for poor people in order to improve social standard and welfare which many times increase non-payment of loan installment and interests, the deficiencies in the infrastructure, euphoria of globalization, frequently changing govt.policies, natural calamities, decrease in sale accountable to increase in NPA, willful defaulters, industrial disputes, market conditions, diversion of funds etc. Various steps are also taken by govt.like enforcement of Securitization Act, One-Time Settlement Scheme (OTS) bringing down the level of NPAs in banks and financial institutions. Ingale concluded that urban co-operative banks in India cannot afford to compromise on the professional management aspect. In the market driven banking industry, urban co-operative banks should stick up to the prudential banking norms .The change in mindset on the part of the bankers and borrowers would certainly help to remedy the NPA problem.Patil V.S.(2003) has given strategies for N.P.A. i.e. prevention of NPAs, to arrest degradation of standard assets into NPAs, up gradation of NPAs, to convert NPAs into standard assets, liquidation of NPAs, to recover whatever cash is possible and write off the remaining. Singh Rajendra (2005) explains The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act-2002) including its features, steps for enforcement of security interest experience of other countries in recovery of NPA. He stated that this act is an essential pre-requisite for smooth operations. The recovery process need to be based on business analysis and restructuring rather on legalistic approach of asset attachment .A legal system can help in setting the conditions for discussion but cannot ensure asset utilization.

Financial Scenario of Bank

Data discussed below is of a bank and branch to give overall financial picture, relevant to study undertaken.

Table No. 1

Loan Disbursement Sector wise during the year 2003-04 to 2007-08 of Rajarambapu Bank

Following table shows the disbursement of loans sector wise. The sectors of loans made by bank are, Agriculture, Retail Trade, House Loans, Vehicle Loans, Small Scale Business, Self Employment, Educational Loans, Others from the year 2003-04 to 2007-08. This disbursement is of entire bank housed 26 branches.

(Figures in rupees lakhs.)

Sr.	Particulars	Year				
		2003-04	2004-05	2005-06	2006-07	2007-08
1	Agriculture	3003.33	3487.79	4680.61	4532.16	4423.36
2	Retail Trade	2935.42	3340.59	3742.25	4071.31	4152.00
3	Housing Loans	2967.99	3382.50	4514.34	5803.18	6557.33
4	Vehicle Loans	1654.62	1582.08	1887.35	2492.45	2093.08
5	Small Scale Business	2646.60	3647.17	4980.12	4587.30	4841.75
6	Self Employment	2033.54	1684.05	1701.89	1542.79	1877.21
7	Educational Loans	764.44	232.75	224.52	387.85	632.38
8	Others	432.09	365.40	416.19	722.17	735.16
	Total	16438	17722.3	22147.27	24139.2	25312.3

(Source: Compiled by Researcher from Annual Reports of the year 2003-04 to 2007-08)

Table depicts the loan disbursement has been increased from Rs.16438 to 25312.30lacs during the year 2003-04 to 2007-08. In the year 2008, more disbursement has been done for Housing Loan, Small Scale Business, Agriculture, and Retail Trade. Around 25% of total disbursement is done for housing loan.

Table No.2

Loan Disbursement Sector wise during the year 2003-04 to 2007-08 of Rajarambapu Bank Branch Market Yard Islampur.

NPA Position in Housing Loans

Under each sector of loan the variations on the basis of period i.e. short term loans, long term loans is made available.

Under Housing Loans, Housing Loan (Short-term - Annual/Quarterly/EMI) and Housing Loan (Long-term EMI) is provided.

Table No.3

Position of House Loan Disbursement of Branch-Market Yard, Islampur during 2003-04

to 2007-08.

(Amounts in Lacs)

Sr.	Type of Loan	2003-04	2004-05	2005-06	2006-07	2007-08
1	House loan(Short-term-Annually/Quarterly/EMI (To 5 years)	146.49	151.63	164.34	152.66	143.13
2	House loan(Long-term EMI) (Above 5 years)	12.29	44.71	73.33	119.28	10.96
	Total	158.78	196.34	237.67	271.94	154.09

(Source: Compiled by Researcher from Annual Reports of Branch-Market Yard, Islampur)

Above table depicts 92.88% of total housing loan disbursement is in short-term annually/quarterly /EMI Housing Loan as compare to 7.11% in long-term disbursement.

Table No.4

Percentage of Housing Loan to Total Loans during 2003-04 to 2007-08

(Amounts in Lacs)

Sr.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
1.	Total Housing Loan	158.78	196.34	237.67	271.94	154.09
2.	Total Loan	1204.73	1405.87	1788.60	1837.66	2343.73
3.	Percentage of Housing Loan Total Loans to (%)	13.17	13.97	13.29	14.80	6.57

(Source: Compiled by Researcher from Annual Reports of Branch-Market Yard, Islampur)

Total disbursement of Housing Loan to Total Loan was ranging between 13 to 14 %.

It has come down in the year 2007-08 to 6.57%.

Table No.5

Trends in Gross NPAs to Net Advances in Housing loan during 2003-04 to 2007-08.

(Amounts in Lacs)

Sr.	Year	Net Advances	Gross NPAs	Gross NPAs as a Percentage of Gross Advances (%)
1.	2003-04	1188.11	253.87	21.36
2.	2004-05	1379.81	162.88	11.80
3.	2005-06	1752.59	153.67	8.76
4.	2006-07	1810.69	103.63	5.72
5.	2007-08	2315.42	108.18	4.67

(Source: Compiled by Researcher from Annual Reports of Branch-Market Yard, Islampur)

Above table reveals that percentage of Gross NPAs to Gross Advances were more in the year 2003-04 and it has come down to 4.67% in the year 2007-08.

Table No.6

Provisions for Housing Loans done by branch-Market Yard, Islampur during the year 2003-04 to 2007-08.

Following table shows provisions made by branch towards housing loans.

(Figures in Lacs)

Sr.	Year	Sub-Standard (10%)	D1 (20%)	D2 (30%)	D3 (50%)
1.	2003-04	0.47	0.95	3.24	1.33
2.	2004-05	1.7	0.97	2.09	4.16
3.	2005-06	2.71	1.20	2.86	1.34
4.	2006-07	2.32	1.23	2.18	2.98
5.	2007-08	1.00	1.12	1.61	4.98

(Source: Compiled by Researcher from Annual Reports of Branch-Market Yard, Islampur)

Note-D=Doubtful

Above table clears that it has been required to make provisions in the year 2003-04 to 2007-08 in all 4 slots of provisions given by Reserve Bank of India.

Data Analysis and Interpretation

Primary and secondary data collected on housing loan NPA is presented below.

Table No.7

NPA Position of Housing Loan in 2007-08.

Following table shows NPA account holders of housing loan occupation wise.

Sr.	Type of Account	Number of NPA Accounts			Total	Percentage (%)
	Occupation	Farming	Service	Business		
1.	Short-term (Annually/Qtly/EMI)	28	9	4	39	95.12
2.	Long-term(EMI)	-	-	2	2	4.88
	Total	28	9	4	41	-
	Percentage	68.29	21.95	9.76	-	100

(Source: Compiled by Researcher from Annual Reports of Branch-Market Yard, Islampur)

Note-EMI=Equated Monthly Installment.

Above table, revealed that out of 41 NPA accountholders, 39 borrowers had taken short-term loans and only 2 had taken long-term loans and majorly borrowers were farmer's i.e.28. Long term loan is opted by businessmen.

Table No.8

Purpose for borrowing Housing Loan

Following table depicts purpose for borrowing housing loan.

Sr.	Reason for Loan Occupation	Number of NPA Accounts			Total	Percentage (%)
		Farming	Service	Business		
1.	Repairing	23	8	3	34	82.92
2.	Construction	3	--	1	4	9.76
3.	Purchase of house	1	--	--	1	2.44
4.	Renovation	1	1	--	2	4.88
	Total	28	9	4	41	100%

(Source: Compiled by Researcher from Annual Report of Branch-Market Yard, Islampur)

Out of 41 NPA accountholders, major part of disbursement had done for repairing purpose to the 34 borrowers. i.e.82.92% and out of which, 23 were farmers.

Table No.9

Reasons for non-payment of installment of Housing Loans

Following table evaluates reasons for non payment of installment. Opinions of samples sort on six reasons.

Sr.	Reasons for non payment Occupation	Number of NPA Accounts			Total	Percentage (%)
		Farming	Service	Business		
1.	Lack of regular income	24	5	4	33	80.48
2.	Increase in other expenses	3	1	--	4	9.76
3.	Diversion of Funds	--	2	--	2	4.88
4.	Willful Defaulter	--	1	--	1	2.44
5.	Non recovery from Debtors	1	--	----	1	2.44
	Total	28	9	4	41	100%

(Source-Primary Data)

Lack of regular income is prime reason for non payment of installments. 80% NPA account holder states out of which majority are farmers and surprisingly found service people too. 9.76% account holders default due increase in other expenses, 4.88% due to diversion of funds elsewhere, and 2.44% were due to willful defaulter non recovery of debtors each.

Besides assessing the performance of NPA accounts of housing loans. Study proposes to throw light on financial performance of branch as well.

Table No.10

Financial Performance of Branch-Market Yard, Islampur during the year 2003-04 to 2007-08.

Sr.	Year	Working Capital	Deposits	Loans	Profit
1	2003-04	3047.36	2967.47	1204.72	10.39
2	2004-05	3084.12	1405.87	2968.52	35.14
3	2005-06	3878.99	3754.14	1788.59	36.96
4	2006-07	4398.53	4242.79	1837.66	58.09
5	2007-08	4767.79	4662.76	2343.73	27.73
	Mean	5835.35	3406.61	2028.59	32.86
	S.D.	2115.30	1148.43	592.28	15.66
	C.V.	36.25	33.71	29.19	47.65

Rank Correlation between Working Capital and Net Profit=+0.55

Rank Correlation between Loan and Profit=+0.2

(Source: Annual Reports of 2003-04 to 2007-08 of Rajarambapu Co-operative Bank Ltd.

Branch-Market Yard, Islampur)

Findings

Specific Findings

1. Out of 41 NPA accountholders 28 account holders were from agricultural sector.
2. 82% borrowers opted loan for housing repairing purpose.

3. The major reason for non payment of installment was lack of irregular income owing to natural calamities like heavy rainfall, the production of crops has been decreased in that year. So farmers were unable to make payments.

General Findings

1. In case of Total Houseloan, Percentage of Gross NPA to Gross Advances has been decreased for the period of 2003-04 to 2007-08 from 21.36 to 4.67%.
2. In case of Percentage Total Loan to Housing Loan, NPA has been decreased for the period of 2003-04 to 2007-08 from 13.17% to 6.57%.
3. In case of Coefficient of Variation (C.V.) of Working Capital, Deposits and Loans are nearer to each other. The C.V. of the net profit is higher; it indicates that there is no consistency in net profit.
4. The coefficient of correlation between net profit and loans shows positive correlation i.e. +0.2. It shows positive low degree, It means that when the loan increases the net profit does not increase in the same proportion. It shows that NPA are increasing.
5. The relationship between working capital and profits shows low degree positive correlation i.e. +0.35. It means that as the working capital increases net profit is not increasing in the same proportion. It may be a cause of increasing NPAs.

Conclusion

Housing is a prime need and major concern of every individual. In an effort to facilitate house to desired banks and other financial institution has extended loan. Becoming these housing loan accounts is a serious concern.

The branches operating in rural area or in sub urban area surrounded with rural masses could have problem in housing loan NPA due irregularity of income.

The economy of Indian villages is still depending on monsoon and relative agricultural production. The said area of economics

has its own problems. When it comes to gauge profitability bank that on the latest reforms like NPA banks necessarily need take some measures towards it which should be plausible implementation. Deduction of housing loan installment at source could be one measure to think. The farmers specially and farm with animal husbandry are attached with few organized sector who rewards efforts of farmers. These organizations can be given authority to route housing loan proposals to be given to farmers.

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