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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. Narsihnam 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

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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. Ingle said 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, upgradation 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 Rajaramabapu 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.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture</td>
<td>3003.33</td>
<td>3487.79</td>
<td>4680.61</td>
<td>4532.16</td>
<td>4423.56</td>
</tr>
<tr>
<td>2</td>
<td>Retail Trade</td>
<td>2935.42</td>
<td>3340.59</td>
<td>3742.25</td>
<td>4071.31</td>
<td>4152.00</td>
</tr>
<tr>
<td>3</td>
<td>Housing Loans</td>
<td>2960.09</td>
<td>3382.50</td>
<td>4514.34</td>
<td>5803.18</td>
<td>5557.33</td>
</tr>
<tr>
<td>4</td>
<td>Vehicle Loans</td>
<td>1654.62</td>
<td>1592.08</td>
<td>1887.35</td>
<td>2492.45</td>
<td>2093.08</td>
</tr>
<tr>
<td>5</td>
<td>Small Scale Business</td>
<td>2646.60</td>
<td>3647.17</td>
<td>4980.12</td>
<td>4587.30</td>
<td>4841.75</td>
</tr>
<tr>
<td>6</td>
<td>Self Employment</td>
<td>2033.54</td>
<td>1684.05</td>
<td>1701.89</td>
<td>1542.79</td>
<td>1873.21</td>
</tr>
<tr>
<td>7</td>
<td>Educational Loans</td>
<td>764.44</td>
<td>232.75</td>
<td>224.52</td>
<td>387.85</td>
<td>632.38</td>
</tr>
<tr>
<td>8</td>
<td>Others</td>
<td>432.00</td>
<td>355.40</td>
<td>416.19</td>
<td>722.17</td>
<td>735.16</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16438</td>
<td>17732.2</td>
<td>22147.27</td>
<td>24139.2</td>
<td>25331.2</td>
</tr>
</tbody>
</table>

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 Rajaramabapu Bank Branch Market Yard Islapur.

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, Islapur during 2003-04 to 2007-08

(Amounts in Lacs)

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Type of Loan</th>
<th>2003-04</th>
<th>2004-05</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Housing Loan (Short-term-Annually/Quarterly/EMI)</td>
<td>146.49</td>
<td>151.83</td>
<td>164.34</td>
<td>152.66</td>
<td>143.13</td>
</tr>
<tr>
<td></td>
<td>(Above 5 years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Housing Loan (Long-term EMI) (Above 5 years)</td>
<td>12.29</td>
<td>44.71</td>
<td>73.33</td>
<td>119.28</td>
<td>10.96</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>158.78</td>
<td>196.54</td>
<td>237.67</td>
<td>272.14</td>
<td>154.09</td>
</tr>
</tbody>
</table>

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

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)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Housing Loan</td>
<td>158.78</td>
<td>196.34</td>
<td>237.67</td>
<td>271.94</td>
<td>154.09</td>
</tr>
<tr>
<td>2</td>
<td>Total Loan</td>
<td>1204.73</td>
<td>1405.87</td>
<td>1788.60</td>
<td>1937.66</td>
<td>2343.73</td>
</tr>
<tr>
<td>3</td>
<td>Percentage of Housing Loan Total Loans in (%)</td>
<td>13.17</td>
<td>13.97</td>
<td>13.29</td>
<td>14.80</td>
<td>6.57</td>
</tr>
</tbody>
</table>

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

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)
NPA in Housing Loan - A Case Study

**Table 6.5**

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Year</th>
<th>Net Advances</th>
<th>Gross NPAs</th>
<th>Gross NPAs as a Percentage of Gross Advances (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003-04</td>
<td>1188.11</td>
<td>253.87</td>
<td>21.36</td>
</tr>
<tr>
<td>2</td>
<td>2004-05</td>
<td>1379.81</td>
<td>162.88</td>
<td>11.80</td>
</tr>
<tr>
<td>3</td>
<td>2005-06</td>
<td>1752.59</td>
<td>153.67</td>
<td>8.76</td>
</tr>
<tr>
<td>4</td>
<td>2006-07</td>
<td>1810.69</td>
<td>103.63</td>
<td>5.72</td>
</tr>
<tr>
<td>5</td>
<td>2007-08</td>
<td>2215.42</td>
<td>108.18</td>
<td>4.67</td>
</tr>
</tbody>
</table>

(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 6.6**

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)

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Year</th>
<th>Sub-Standard (10%)</th>
<th>D1 (20%)</th>
<th>D2 (30%)</th>
<th>D3 (50%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2003-04</td>
<td>0.47</td>
<td>0.95</td>
<td>3.24</td>
<td>1.33</td>
</tr>
<tr>
<td>2</td>
<td>2004-05</td>
<td>1.7</td>
<td>0.97</td>
<td>2.09</td>
<td>4.16</td>
</tr>
<tr>
<td>3</td>
<td>2005-06</td>
<td>2.71</td>
<td>1.20</td>
<td>2.86</td>
<td>1.34</td>
</tr>
<tr>
<td>4</td>
<td>2006-07</td>
<td>2.32</td>
<td>1.23</td>
<td>2.18</td>
<td>3.98</td>
</tr>
<tr>
<td>5</td>
<td>2007-08</td>
<td>1.00</td>
<td>1.12</td>
<td>1.61</td>
<td>4.98</td>
</tr>
</tbody>
</table>

(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 6.7**

NPA Position of Housing Loan in 2007-08.

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

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Type of Account</th>
<th>Number of NPA Accounts</th>
<th>Total</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Occupation</td>
<td>Farming</td>
<td>Service</td>
<td>Business</td>
</tr>
<tr>
<td>1</td>
<td>Short-term</td>
<td>28</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Long-term (EMI)</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>28</td>
<td>9</td>
<td>4</td>
</tr>
</tbody>
</table>

(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 6.8**

Purpose for borrowing Housing Loan

Following table depicts purpose for borrowing housing loan.

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Type of Account</th>
<th>Number of NPA Accounts</th>
<th>Total</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Occupation</td>
<td>Farming</td>
<td>Service</td>
<td>Business</td>
</tr>
<tr>
<td>1</td>
<td>Working Capital</td>
<td>28</td>
<td>9</td>
<td>4</td>
</tr>
</tbody>
</table>

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

**Rank Correlation between Working Capital and Net Profit=+0.35**

**Rank Correlation between Loan and Profit=+0.2**

(Source: Annual Reports of 2003-04 to 2007-08 of Rajaramabapu 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 Housing Loan, 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 institutions 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 next take some measures towards it which shold be plausible implementation. Deduction of housing loan installment at sou could be one measure to think. The farmers specially and farm with animal husbandry are attached with few organized sect who rewards efforts of farmers. These organizations can be given authority to route housing loan proposals to be given to farmer.

References: