

Loan delinquency by businessmen – a study with special reference to public sector banks in coimbatore district

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ABSTRACT : The quality and performance of advances have a direct bearing on the profitability and viability of banks. Despite an efficient credit appraisal and disbursement mechanism, problems can still arise due to various factors. In this regard, a study has been undertaken to examine the behavior of borrowers in repaying the loan taken from public sector banks. The objectives of the study are to examine the socio-economic background of sample businessmen, to find out factors determining default by businessmen and to suggest methods to improve recovery of NPA. The data required for the study have been collected through an interview schedule. One hundred and twelve borrowers of public sector banks in Coimbatore district are included in the sample. The data collected have been analysed by making use of simple percentage. In order to ascertain the relationship between the various factors and level of NPA Chi-square tests have been followed. The present study carried out in this direction has highlighted the causes for default on the part of the borrowers. Studies on NPA will throw more light on the burning issue.

Keywords: Loan Delinquency, Default, Public Sector Banks

INTRODUCTION

Non-Performing Assets are those, which cease to generate income for the banks or financial institutions. Indian banking sector is facing a serious crisis, in view of mounting Non-Performing Assets. It has reached a critical level and requires major operation to set right the position. The high level of NPA s has adversely affected the earning capacity and profitability of many banks and financial institutions. Reduction of Non-Performing Assets is posing the biggest challenge to banks in Indian economy (Jayachandra and Vasu, 2003). The high level and growing quantum of NPAs in banks has been a matter of great concern and anxiety not only to the banks, but to the economists and policy planners as well; since credit acts as a catalyst to the economic growth of the country and any obstacle, such as the threat of NPAs, is bound to have adverse consequences not only on the health of banking system, but also on the economy as a whole. The quality and performance of advances have a direct bearing on the profitability and viability of banks. Despite an efficient credit appraisal and disbursement mechanism, problems can still arise due to various factors.

REVIEW OF LITERATURE

Several studies have been conducted in the foreign soil to examine the repayment behavior of borrowers. McGoven (1993) argued that ‘character’ has historically been a paramount factor of credit and a major determinant in the decision to lend money. Serigio (1996) in a study of non-performing loans in Italy found evidence that an increase in the riskiness of loan assets is rooted in a bank’s lending policy adducing to relatively unselective and inadequate assessment of sectoral prospects. Arene and Aneke (1999) found that loan repayment rate is positively influenced by the size of loan, farm size, income, level of formal education of farmers, household size and adoption of innovations but negatively influenced by the distance between home and source of loan. Bloem and Gorter (2001) suggested that a more or less predictable level of non-performing loans, thought it may vary slightly from year to year is caused by an inevitable number of ‘wrong

economic decisions' by individuals and plain bad luck. Bercoff, Giovanniz and Grimardx's (2002) results suggested that bank size measured by log of assets had a positive effect but asset growth had a negative effect on Non-Performing Loans.

In India too, the problem of NPA is highly felt as a result of which many researchers have concentrated on doing studies on NPA. Kandasami (1991) in his analysis indicates that larger the size of families, greater the chance of becoming defaulters and vice versa. This study reveals that whatever be the level of economic motivation, the borrowers may either default or prompt in repayment of co-operative loans. Debahrata Das (2001) in his study reveals that borrowers who belong to the group drawing an amount of loan more than Rs. 50000 have less tendency to default. Borrowers with higher level of education utilize the loans rationally and this helps them in increasing their repaying capacity. Borrowers of primary and below primary level of education including illiterate constituted the major share to more than 58 per cent of total defaulters. Muniappan (2002) examined the problem of NPAs related to several internal and external factors confronting the borrowers. The internal factors are diversion of funds and external factors confronting the borrowers. The internal factors are diversion of funds for expansion / diversification / modernization, taking up new projects, helping / promoting associate concerns, time / cost over runs during the project implementation stage, business (product, marketing etc.,) failure, inefficient management, strained labour relations, inappropriate technology / technical problems, products obsolescence, etc., while external factors are recession, non-repayment in other countries, inputs / power shortage, price escalation, accidents and natural calamities. Das and Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macro economic condition and operating efficiency indicators. Navendra Gosavi (2003) study reveals that one of the main reasons for the unsatisfactory recovery in the state is the poor post sanction supervision and control. The policy procedure and process followed in making advance of loan was to a large extent complicated. The members have to wait for a long time in getting the loan from the bank. It has been observed that the proper utilization of loan amount is not being ensured. Sustained efforts are there to recover the amount but timely information is not supplied to the borrowers for informing them the amount to be repaid by them and due date of repayment of loan. The growing number of members and loan accounts could be one of the reasons for decreasing percentage of recovery. The high level of over dues seriously affects the smooth flow of credit to the members; on the other hand it results in weakening the financial base of the bank. Sumathi and Gandhimathi (2005) study reveals that the recovery of dues depends upon the cumulative efforts of the borrower's activity and the environmental factors. The entrepreneurial skills and the good intention of repaying his dues, the feasible, viable and high remunerative activities and the favourable agro-climatic conditions together with timely forward and backward linkage can alone bring in good recovery spontaneously.

OBJECTIVES

1. To examine the socio-economic background of sample businessmen
2. To find out factors determining default by businessmen
3. To suggest suitable methods to improve recovery of NPA

METHODOLOGY

The data required for the study have been collected through an Interview schedule. Questions relating to the aspects of personal profile, business profile and reasons for non-repayment of loan are included in the interview schedule. The study is concerned with the public sector banks. Hundred and twelve borrowers of the public sector banks in Coimbatore district are included in the sample. Convenience sampling method has been followed to choose the sample. The data collected have been analyzed by making use of percentage. In order to ascertain the relationship between various factors and level of NPA, Chi-square test has been followed. The level of significance chosen is ten per cent.

FINDINGS AND CONCLUSION

A. Social Profile

Social profile of businessmen refers to their personal profile. Businessmen who reside in urban and semi-urban area are found to be utmost equal. Businessmen who belong to the age ranging up to 30 years are found to be high in number, Sex-wise, majority of the business people is men. In case of marital status, more number of defaulters is married. Businessmen having joint families are good users of loan as compared to those having nuclear families. Businessmen with educational qualification above primary but below higher secondary level businessmen are large in number as compared to others. Percentage of defaulters is more businessmen are large in number as compared to others. Percentage of defaulters is more businessmen who have family members between three and four members. Majority of businessmen do not hold membership in trade association. Out of members of the trade association, only three businessmen have more than 10-year experience in trade association. Few numbers of businesses holding office position in trade association. More number of the businessmen does not have the membership in the political party. Only two businessmen have more than ten-year experience in political party. Three businessmen are holding office position in political party. Majority of the businessmen are doing their business on sole proprietorship basis.

B. Business Profile

Business profile of businessmen refers to their business activities. In case of nature of business, more businessmen are traders. Many businessmen have experience in their business up to 10 years only. More number of businessmen are doing their business in urban areas. Major number of businessmen has invested up to Rs. 25000 in their business. Out of forty-six businessmen fifty per cent of businessmen have up to two employees in their business. Majority of the business are affected by high strength of competition. Technology wise, majority of the businessmen are using low level of technology. More number of businessmen sells both for cash and credit. Based on sales, more number of businessmen has sales up to Rs. 5000 only. Sixty businessmen who earn net profit up to Rs. 2500 only. Hundred and nine businessmen are not affected the sickness of the business. Only few members affected the sickness of the business and these persons have been removed from sickness through additional funds raised from public sector banks.

C. Economic Profile

Based on secondary occupation, only three businessmen have secondary occupation (i.e.) more number of businessmen do not have any secondary occupation. Further, businessmen have up to five years experience in their business. Based on their income, many of businessmen are with income ranging up to Rs. 5000. Out of five businessmen three businessmen have income up to Rs. 3000. Based on the total income, more businessmen are with total income ranging up to Rs. 5000. More number of businessmen are with family income ranging up to Rs. 5000. Based on their family expenditure, majority of the businessmen belong to expenditure level of Rs. 2500– Rs. 5000. Majority of the businessmen have no surplus of income. Eighty businessmen have one earning member in their family. More number of businessmen have total non earning members in their family between two and three persons. Based on the family size, more number of businessmen has members in their family ranging between three and four.

FACTORS ASSOCIATED WITH LOAN DEFAULT

Social Factors and Level of NPA

i. Area of Residence and NPA

As the calculated χ^2 value is higher than the table value at ten per cent level, there exists a significant association between area of residence and level of NPA. Thus, those who reside in semi-urban area are with high level of NPA.

ii. Age and NPA

Chi-square test shows that there is no significant relationship between age and level of NPA.

iii. Sex and NPA

Female businessmen have high percentage of NPA as compare to male businessmen. Chi-square shows that there does not exists any significant association between sex and level of NPA

iv. Marital Status and NPA

Businessmen who are unmarried have the highest percentage of NPA. Chi-square shows that there is no significant relationship between marital status and NPA.

v. Type of Family and NPA

Businessmen who belong to joint family are with high level of NPA and businessmen belong to nuclear family are with low level of NPA. Chi-square result portrays that there does not exist any significant association between type of family and level of NPA.

vi. Educational Qualification and NPA

Educational qualification businessmen may differ from person to person. The average percentage of NPA is the highest with those whose educational qualification is above primary but below higher secondary level. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between educational qualification and level of NPA.

Table -1: Social Factors and Level of NPA

Factors	Level of NPA			Total	χ^2 Value
	Low	Moderate	High		
i. Area of Residence					
Urban	10 (24.39)	28 (68.29)	3 (7.32)	41 (100.00)	9.4802*
Semi-urban	8 (20.00)	23 (57.50)	9 (22.50)	40 (100.00)	
Rural	1 (3.23)	25 (80.64)	5 (16.13)	31 (100.00)	
ii. Age					
Up to 30	4 (8.70)	35 (76.09)	7 (15.21)	46 (100.00)	6.3492
31-40	6 (16.67)	25 (69.44)	5 (13.89)	36 (100.00)	
Above 40	9 (30.00)	16 (53.33)	5 (16.67)	30 (100.00)	
iii. Sex					
Male	12 (14.63)	58 (70.74)	12 (14.63)	82 (100.00)	1.4124
Female	7 (23.33)	18 (60.00)	5 (16.67)	30 (100.00)	
iv. Marital Status					
Married	15 (17.65)	60 (70.59)	10 (11.76)	85 (100.00)	3.1918
Unmarried	4 (14.81)	16 (59.26)	7 (25.93)	27 (100.00)	
v. Type of Family					
Joint	9 (16.67)	36(66.66)	9 (16.67)	54 (100.00)	0.1794

Factors	Level of NPA			Total	χ^2 Value
	Low	Moderate	High		
Nuclear	10 (17.24)	40 (68.97)	8 (13.79)	58 (100.00)	
vi. Education					
Up to Primary	10 (24.39)	26 (63.41)	5 (12.20)	41 (100.00)	7.0703
H.Sc.	4 (8.51)	37 (78.72)	6 (12.77)	47 (100.00)	
Above H.Sc.,	5 (20.83)	13 (54.17)	6 (25.00)	24 (100.00)	
vii. Experience					
Up to 5 Years	6 (15.00)	27 (67.50)	7 (17.50)	40 (100.00)	3.9460
6-10 Years	3 (10.00)	24 (80.00)	3 (10.00)	30 (100.00)	
11-15 Years	4 (23.53)	10 (58.82)	3 (17.65)	17 (100.00)	
Above 15 Years	6 (24.00)	15 (60.00)	4 (16.00)	25 (100.00)	
viii. Family Size					
Up to 2	2 (25.00)	4 (50.00)	2 (25.00)	8 (100.00)	9.3240
3-4	13 (27.08)	30 (62.50)	5 (10.42)	48 (100.00)	
5-6	4 (8.70)	34 (73.91)	8 (17.39)	46 (100.00)	
Above 6	0 (0.00)	8 (80.00)	2 (20.00)	10 (100.00)	
ix. Membership in Trade Association					
Yes	3 (30.00)	7 (70.00)	0 (0.00)	10 (100.00)	2.7740
No	16 (15.69)	69 (67.65)	17 (16.66)	102 (100.00)	
x. Member in Political Party					
Yes	1 (14.29)	5 (71.42)	1 (14.29)	7 (100.00)	0.0495
No	18 (17.14)	71 (67.62)	16 (15.24)	105 (100.00)	

*Significant at 10 per cent level

vii. Experience and NPA

Businessmen whose experience ranges between 11 and 15 years have the highest percentage of NPA. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between experience and level of NPA.

viii. Family Size and NPA

Businessmen with two family members have the highest average percentage of NPA. Chi-square value shows that there is no significant association between family size and level of NPA.

ix. Membership in Trade Association and NPA

Businessmen who are not members of the trade association have the highest average percentage of NPA. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between membership in trade association and level of NPA.

x. Membership in Political Party and NPA

Businessmen who are not the members of the political party have the highest percentage of NPA. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between membership in political party and level of NPA.

Economic Factors and Level of NPA

i. Personal Monthly Income and NPA

The businessmen whose income is up to Rs. 5000 have the highest average percentage of NPA. As the calculated χ^2 value is higher than the table value at ten per cent level, there exist a significant association between personal monthly income and level of NPA.

Table – 2: Economic Factors and Level of NPA

Factors	Level of NPA			Total	χ^2 Value
	Low	Moderate	High		
i. Personal Income					
Up to Rs. 5000	9 (11.69)	54 (70.13)	14 (18.18)	77 (100.00)	9.9394*
Rs. 5001-Rs. 10000	10 (34.48)	17 (58.62)	2 (6.90)	29 (100.00)	
Above Rs. 10000	0 (0.00)	5 (83.33)	1 (16.67)	6 (100.00)	
ii. Family Income					
Up to Rs. 5000	9 (13.23)	48 (70.59)	11(16.18)	68 (100.00)	3.5817
Rs. 5001-Rs. 10000	9 (26.47)	20 (58.82)	5 (14.71)	34 (100.00)	
Above Rs. 10000	1 (10.00)	8 (80.00)	1 (10.00)	10 (100.00)	
iii. Family Expenditure					
Up to Rs. 2500	5 (12.50)	32 (80.00)	3 (7.50)	40 (100.00)	.6.400
Rs. 2501-Rs. 5000	9 (21.95)	23 (56.10)	9 (21.95)	41 (100.00)	
Rs. 5001-Rs. 7500	3 (20.00)	9 (60.00)	3 (20.00)	15 (100.00)	
Above Rs. 7500	2 (12.50)	12 (75.00)	2 (12.50)	16 (100.00)	
iv. Family Surplus					
Less than Zero	5 (9.80)	37 (72.55)	9 (17.65)	51 (100.00)	4.2087
Re. 1 – Rs. 3000	9 (20.45)	29 (65.91)	6 (13.64)	44 (100.00)	
Above Rs. 3000	5 (29.41)	10 (58.83)	2 (11.76)	17 (100.00)	
v. Total Earning Members					
Up to One	12 (15.00)	56 (70.00)	12 (15.00)	80 (100.00)	0.8322
Above One	7 (21.88)	20 (62.50)	5 (15.62)	32 (100.00)	
vi. Total Non-earning Members					
Up to One	7 (29.17)	13 (54.17)	4 (16.66)	24 (100.00)	6.8647
2-3	12 (16.90)	48 (67.61)	11 (15.49)	71 (100.00)	
Above Three	0 (0.00)	15 (88.24)	2 (11.76)	17(100.00)	

*Significant at 10 per cent level

ii. Family Income and NPA

Family income of the businessmen is up to Rs. 5000 have the highest average percentage of NPA. Chi-square table shows that there is no significant association between family income and level of NPA.

iii. Family Expenditure and NPA

Businessmen whose family expenditure lies between Rs. 2501 and Rs.5000 have the highest average percentage of NPA. Chi-square value reveals that there is no significant association between family expenditure and level of NPA.

iv. Family Surplus of Income and NPA

The average percentage of NPA is the highest with those who do not have any surplus of income. Thus it can be said that those with deficit of income are with high level of NPA. Chi-square table shows that there is no significant association between family surplus of income and level of NPA.

v. Total Earning Members and NPA

Businessmen with more than one earning member in their family have the highest average percentage of NPA. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between total earning members and level of NPA.

vi. Total Non-earning Members and NPA

The average percentage of NPA is the highest with those who have one non-earning members in their family. Chi-square value shows that there is no significant association between non-earning members in their family and level of NPA.

Business Specific factors and Level of NPA

i. Form of Businessmen and NPA

The average percentage of NPA is the highest with those who are doing their business on a sole proprietorship basis. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between form of business and level of NPA.

ii. Nature of Business and NPA

Traders have the highest average percentage of NPA. Chi-square value is less than the table value at ten per cent level, there does not exist any significant association between nature of business and level of NPA.

iii. Age of Business and NPA

Businessmen with experience ranging between 11 and 20 years have highest percentage of NPA. As the calculated χ^2 value is higher than the table value at ten per cent level, there exist a significant association between age of business and level of NPA.

iv. Area of Operation and NPA

Average percentage of NPA is the highest with those who are doing business in Semi-urban areas. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between area of operation and level of NPA.

v. Size of Unit and NPA

The average percentage of NPA is the high with tiny units. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between size of unit and level of NPA.

vi. Strength of Competition and NPA

Businessmen facing moderate competition in their business have with high average percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between strength of competition and level of NPA.

Table – 3 : Business Specific Factors and Level of NPA

Factors	Level of NPA			Total	χ^2 Value
	Low	Moderate	High		
i. Form of Business					
Sole Proprietorship	16 (15.68)	69 (67.65)	17 (16.67)	102 (100.00)	1.1834
Partnership	3 (30.00)	7 (70.00)	0 (0.00)	10 (100.00)	
ii. Nature of Business					
Trading	13 (21.31)	37 (60.66)	11 (18.03)	61 (100.00)	3.4842
Manufacturing	3 (10.34)	23 (79.32)	3 (10.34)	29 (100.00)	
Service	3 (13.64)	16 (72.72)	3 (13.64)	22 (100.00)	
iii. Age of Business					
Up to 10 Years	9 (11.54)	58 (74.36)	11 (14.10)	78 (100.00)	8.3608*
11 – 20 Years	6 (24.00)	14 (56.00)	5 (20.00)	25 (100.00)	
Above 20 Years	4 (44.44)	4 (44.44)	1 (11.12)	9 (100.00)	
iv. Area of Operation					
Urban	13 (26.00)	31 (62.00)	6 (12.00)	50 (100.00)	6.1939
Semi-urban	5 (12.82)	27 (69.23)	7 (17.95)	39 (100.00)	
Rural	1 (4.35)	18 (78.26)	4 (17.39)	23 (100.00)	
v. Size of Unit					
Cottage	3 (23.08)	10 (76.92)	0 (0.00)	13 (100.00)	4.9389
Tiny	12 (16.00)	49 (65.33)	14 (18.67)	75 (100.00)	
SSI	1 (9.09)	8 (72.73)	2 (18.18)	11 (100.00)	
Medium Scale	3 (25.00)	8 (66.67)	1 (8.33)	12 (100.00)	
Large Scale	0 (0.00)	1 (100.00)	0 (0.00)	1 (100.00)	
vi. Strength of Competition					
High	16 (19.75)	53 (65.43)	12 (14.82)	81 (100.00)	3.8008
Moderate	2 (8.70)	16 (69.57)	5 (21.73)	23 (100.00)	
Low	1 (12.50)	7 (87.50)	0 (0.00)	8 (100.00)	
vii. Level of Technology					
High	3 (37.50)	5 (62.50)	0 (0.00)	8 (100.00)	4.2066
Moderate	8 (13.33)	41 (68.34)	11 (18.33)	60 (100.00)	
High	8 (18.18)	30 (68.18)	6 (13.64)	44 (100.00)	

Factors	Level of NPA			Total	χ^2 Value
	Low	Moderate	High		
viii. Nature of Sales					
Cash	5 (22.72)	14 (63.64)	3 (13.64)	22 (100.00)	4.2857
Credit	4 (18.18)	12 (54.55)	6 (27.27)	22 (100.00)	
Both	10 (14.72)	50 (73.53)	8 (11.75)	68 (100.00)	
ix. Sickness					
Yes	1 (33.33)	2 (66.67)	0 (0.00)	3 (100.00)	0.9554
No	18 (16.51)	74 (67.89)	17 (15.60)	109 (100.00)	
x. Failure of Business					
Yes	19 (18.10)	69 (65.71)	17 (16.19)	105 (100.00)	3.5368
No	0 (0.00)	7 (100.00)	0 (0.00)	7 (100.00)	
xi. Lack of Technical Guidance					
Yes	13 (20.31)	42 (65.63)	9 (14.06)	64 (100.00)	1.2190
No	6 (12.50)	34 (70.83)	8 (16.67)	48 (100.00)	
xii. Poor Sale of Goods					
Yes	17 (18.48)	63 (68.48)	12 (13.04)	92 (100.00)	2.2727
No	2 (10.00)	13 (65.00)	5 (25.00)	20 (100.00)	
xiii. Increased Cost of Production					
Yes	13 (16.88)	51 (66.22)	13 (16.88)	77 (100.00)	0.5683
No	6 (17.14)	25 (71.43)	4 (11.43)	35 (100.00)	
xiv. Insufficient Returns					
Yes	17 (17.35)	64 (65.30)	17 (17.35)	98 (100.00)	3.2481
No	2 (14.29)	12 (85.71)	0 (0.00)	14 (100.00)	
xv. Locational Disadvantage					
Yes	9 (15.52)	41 (70.69)	8 (13.79)	58 (100.00)	0.4428
No	10 (18.52)	35 (64.81)	9 (16.67)	54 (100.00)	
xvi. Loss in Operation					
Yes	19 (17.43)	73 (66.97)	17 (15.60)	109 (100.00)	1.4602
No	0 (0.00)	3 (100.00)	0 (0.00)	3 (100.00)	
xvii. Variability in the Level of Income					
Yes	15 (15.00)	69 (69.00)	16 (16.00)	100 (100.00)	2.7174
No	4 (33.33)	7 (58.34)	1 (8.33)	12 (100.00)	
xviii. Inadequacy of Working Capital					
Yes	12 (14.12)	61 (71.76)	12 (14.12)	85 (100.00)	2.7391
No	7 (25.92)	15 (55.56)	5 (18.52)	27 (100.00)	

*Significant at 10 per cent level

vii. Level of Technology and NPA

Businessmen who are using moderate level of technology in their business have the highest average percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between level of technology and level of NPA.

viii. Nature of Sales and NPA

Businessmen who are doing their sales on credit basis have the highest average percentage of NPA. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between nature of sales and level of NPA.

ix. Sickness and NPA

Businessmen who are not affecting the problem of sickness in their business have the highest average percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between sickness and level of NPA.

x. Failure of Business and NPA

Businessmen who feel that failure is the cause for NPA have the highest average percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between failure of business and level of NPA.

xi. Lack of Technical Guidance and NPA

The percentage of NPA is the highest with those who are having technical guidance in their business. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between lack of technical guidance and level of NPA.

xii. Poor Sale of Goods and NPA

Businessmen who have pointed out the reason that poor sale of goods are the cause for NPA has the least percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between poor sale of goods and level of NPA.

xiii. Increased Cost of Production and NPA

The average percentage of NPA is the highest with those businessmen facing the problem of increased cost of production. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between increased cost of production and level of NPA.

xiv. Insufficient Returns and NPA

Businessmen who are facing problem of insufficient returns in their business have the highest percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between insufficient returns and level of NPA.

xv. Locational Disadvantage and NPA

Businessmen who are pointed out reason facing the problem of locational disadvantage have the lowest percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between locational disadvantage and level of NPA.

xvi. Loss in Operation and NPA

Businessmen who are facing the problem of loss in operation have the highest average percentage of NPA. As the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between loss in operation and level of NPA.

xvii. Variability in the Level of Income and NPA

The average percentage of NPA is the highest with those who are having variability in the level of income. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between variability in the level of income and level of NPA.

xviii. Inadequacy of Working Capital and NPA

The average percentage of NPA is the highest with those who are facing the problem of inadequacy of working capital. Since the calculated χ^2 value is less than the table value at ten per cent level, there does not exist any significant association between inadequacy of working capital and level of NPA.

SUGGESTIONS

a. Government

- ❖ Government has to identify such sectors of business which need capital and accordingly direct the banking system to deliver loans to meet the needs of borrowers
- ❖ For business units at nascent stages, soft loans may be made available through banks under the direction of the state
- ❖ As announcement of waiver schemes temp the borrowers defer repayment of loan, the government may, as a matter of policy may insist on full repayment of loan in time.

b. Banks

- ❖ Pre-sanction inspection of borrowers has to be executed with much care so that only those borrowers who have the potential to repay get the loans through the public sector banks. Credit worthiness of the borrowers has to be assigned top order importance.
- ❖ When banks take up securities from borrowers, they may exercise utmost care to evaluate the worthiness of the security
- ❖ It is always better to decide on the repayment schedule in consultation with the borrowers. This shall avoid this mismatch between repayment schedule and period of ability of the borrowers to repay the loan.

c. Borrowers

- ❖ Borrowers have to realize the fact that credit delivery mechanism of banks would come to a grinding halt if they do not return back the amount they have taken on loan from the banks. This sort of realization shall result in easy recollection of loans on the part of bankers.
- ❖ Loans taken from banks may be put to productive use only and unproductive use of loans should not happen at any cost. Towards this, the borrowers try to build up reserves on which they may bank upon at times of need. This will leave free the loan obtained from banks so that it could be employed for the purpose for which it was borrowed. Financial discipline on the part of the borrowers is highly needed so that they employ the funds appropriately.

CONCLUSION

Non-Performing Assets have by far the most serious problem that has ever shaken the banking system. Everyone agrees that the level of NPA has to be contained so that the banking operations could be carried out more profitably. Further, with the onset of globalization and international competition has become order of the day and banking system cannot stand aloof from this. To equip itself to face the future with much vigour, it becomes imperative that it cleans the balance sheet well. The present study carried out, in this direction, has highlighted the causes for default on the part of the borrowers. Studies on NPA will throw more light on the burning issue. A study may be conducted to examine how different category of borrowers differs in their repaying characteristics. Expectation of borrowers may be studied exclusively in order to enable the government to frame suitable policies regarding extending of loans to borrowers. Effectiveness of recovery measures may be studied in the light of factual data so that ways and means could be identified to devise better methods of recovery of loans. The researcher would highly be satisfied if the findings of this study could be a pioneer towards further research by the young researchers.

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