Non performing assets essay

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A non-performing asset (NPA) is defined as a credit facility in respect of which the interest or instalment of principal has remained ‘ past due’ for a specified period of time. It is debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The nonperforming asset is therefore not yielding any income to the lender in the form of principal and interest payments. It also includes the real estate owned by the bank due to foreclosures.

On a bank’s balance sheet, loans made to customers are listed as assets. The biggest risk to a bank is when customers who take out loans stop making their payments, causing the value of the loan assets to decline. Loans don’t go bad right away. Most loans allow customers a certain grace period. Then they are marked overdue. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset. Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs.

A non-performing asset shall be a loan or an advance where; Interest and instalment of principal remain overdue for a period of more than 90 days in respect of a term loan, The account remains ‘ out of order’ for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC), The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted, Interest and instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and Any

amount to be received remains overdue for a period of more than 90 days in respect of other accounts After a certain amount of time, a bank will try to recoup its money by foreclosing on the property that secures the loan. Once the bank legally owns the property, it is classified as real estate owned (REO) on the bank's balance sheet. The higher the amount of non-performing assets, the weaker the bank's revenue stream. In the short term, many banks have the ability to ride out an increase in nonperforming assets they might have strong reserves or other capital that can be used to offset the losses. But after a while, if that capital is used up, nonperforming loans will imperil a bank's health. Non-performing assets aredead weights on the balance sheet.

In India, public sector banks (PSBs) have seen a steep rise in non-performing assets and this seems set to continue. Stock markets are punishing them and liquidity tightening to stem the slide in the rupee is also affecting performance. Banks may have to deal with higher non-performing assets on account of poor economic performance. Non-performing assets are low in the small retail segment.

What happens is that a big loan turns bad and that affects the entire loan book. A rapidly slowing economy is resulting in a quantum leap in bad loans. Gross NPAs as a percentage of advances stood at a two-and-half year high in several leading PSBs in the April-June quarter. The gross NPAs of some public sector banks, including State Bank of India and Punjab National Bank have crossed 4 percent of the total assets at the end of March, 2013. Gross non-performing assets of public sector banks rose to Rs. 1. 76 lakh crore at the end of June quarter from Rs. 1.

55 lakh crore at March 31, 2013. Interestingly, private sector banks have not seen much deterioration in asset quality and have managed to maintain their NPAs at low levels. That is because these institutions have better credit standards when compared to their nationalized counterpartsAccording to global rating agency Standard ; Poor's, India's banking sector's non-performing assets ratio is likely to surge to 3. 9 percent of total loans in 2013-14 and to 4. 4 percent in 2014-15, compared with 3. 4 percent in fiscal 2012-13.