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Non Performing Asset In Indian Banking System And Its Adverse Effects

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Abstract

Recent news of increasing non-performing assets (NPAs) and instances of bribery and corruption have put the banking and financial services sector in a distress situation. The Public Sector Banks (PSBs) continue to be under stress, on account of aggressive lending in the past. NPA is one of the major concerns for the banking system around the globe and the Indian banking system is not an exception to this universal phenomenon. The problem which was largely hidden earlier has now come to the forefront in recent years. The bad loan crisis at Indian Public Sector banks continues to worsen with 26 banks together reporting gross non-performing assets of more than Rs 7.31 lakh crore. India's bad loans are fifth highest in the world and surged dramatically after March 2015.

Introduction:

A major threat to banking sector is prevalence of NPAs. A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or instalment of principal has remained 'past due' for a specified period of time. Non-performing assets are one of the talking points of banks in their performance reports. Almost all banks in India is suffering from the problem of NPA. Here we have discussed the concept of Non-performing Assets.

An Assets, including a leased asset, become an NPA when it ceases to generate

income for the bank. An NPA is a loan or an advance where;

- The Interest and/or Installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- An account remains 'out of order' as indicated in the article below, in respect of an overdraft/cash credit (OD/CC).
- A bill remains overdue for a period of more than ninety days, in the case of bills purchased and discounted.
- An installment of the principal or the interest thereon remains overdue for one crop season for long duration crops.

Banks should classify an account as an NPA only if the interest charged during any quarter is not serviced fully within ninety days from the end of the quarter.

'Out of Order' status:

An account is treated as 'out of order', if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases, where the outstanding balance in the operating account is less than the sanctioned limit/ drawing power, but there are not credit continuously for ninety days as on the date of balance sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Categories of NPAs:

Banks are required to classify non-performing assets into the following three categories based on the period for which the asset has remained non-performing and reliability of the dues:

- **Substandard Assets** – An assets which remained a NPA for a period less than or equal to twelve months (With Effect from March 31, 2005).
- **Doubtful Assets** - An assets would be classified as doubtful assets if it has remained as Substandard Assets fore more than twelve months (With Effect from March 31, 2005).
- **Loss Assets** – A loss assets is one,