Article

Top 30 defaulting borrowers constitutes 34% of the Total Non Performing Assets

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Article

Recently it has been found that a significant part of the total default faced by the banks can be attributed to large borrowers. According to a report by Economic Times on 5th November[1], 2013, the value of top thirty defaulted loan accounts in the books of the Public Sector Banks together covers one third of the total gross nonperforming assets of the PSU banks. As per the Reserve Bank of India, out of the total nonperforming loans of Rs. 1,82,829 crores in the books of the public sector banks, the top thirty defaulters accounts for Rs. 63,671 crores which comes to 34.83%. In case of the nationalised banks the situation is even worse: the top 30 defaulter accounts for Rs. 48,406 crores out of Rs. 1,11,209 crores in total gross nonperforming assets which comes to 43.5%. Almost six public sector banks showed a contribution of more than 50% by the top thirty defaulters in their gross nonperforming assets, Punjab and Sind Banks being the fore-runner with the highest of 62.53% contribution. This clearly indicates that mainly the big borrowers are the ones who are defaulting in making payments.

Measures available with the banks to recover their money

Generally, banks in India take measures under the SARFAESI Act, 2002 to recover the money by enforcing the security interests, whereby it can take possession of the property and sell it out to recover the amount due on the part of the borrower when the account is classified as a non performing asset in the books of the originator. The banks have the power to apply to the Debt Recovery Tribunal where it fails to recover the whole amount from the borrower under this Act. Where the amount due is exceeding Rs. 10 lakhs, the banks can also apply directly to the Debt Recovery Tribunal. So the banks have the provision to recover their money in various ways.

Problems faced by the banks

Till date, huge amounts of money have been recovered by the banks through these measures, but mostly from small borrowers. When it comes to large borrowers, none of these devices work and most likely the case goes for a CDR. The recovery of debts by the lenders under a CDR scheme gets deferred because the tenure of these schemes generally extends up to ten years. Hence, the point that we have made - that SARFAESI works very well against small borrowers but fails to yield anything for large borrowers – gets vindicated. Large borrowers are generally the big corporate houses hence, there are no personal collateral such as residential house of the directors etc. offered as security whereas in case of small borrowers, banks use their lending muscle to get these securities. So, the banks are left with very little to do except to go for CDR in case of the large buyers.

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[1] http://economictimes.indiatimes.com/news/news-by-industry/banking/finance/banking/top-30-npas-of-psbs-account-for-one-third-of-total-bad-loans/articleshow/25218270.cms