A Detailed Study of NPA of Home Loans with Reference to Causes and Recovery Model

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ABSTRACT

As NPA is a Global problem and all countries over the world are suffering with this evil. NPA is everywhere either the country is developed, under developed or undeveloped. Second important issue is that NPA is pervasive in all types of loans either that is home loan, corporate loan or personal loan. The area of present study is confined to Haryana state, with main objective of study of home loans and their NPAs of commercial banks in Haryana. Now the problem of NPA has become a challenging issue and it may be a cause of failure of a bank. In the year 2018-19 PNB bank had the GNPA ration 18.36%. Now from 15.7% to 2.36% and again 18.36% is very serious and challenging issue for banks but for whole economy. One more reason which motivated the researcher to select this topic for study is the presence of NPA problem at global level. The study is primary data based and examines the trend of home loans and NPA of home loans. Primary data was collected through questionnaire method from the bankers and home loan borrowers. For making problem more clear secondary data of home loans and its NPA also collected from the websites of banks and Reserve Bank of India. The last but not least research through the opinion of bankers and home loan borrowers tried to identified some important suggestions which will help the bankers to minimize the home loans as well other NPAs.

1.1 INTRODUCTION

Food, clothing and shelter are the basic needs of every human being. Possession and ownership of house provides satisfaction to the individual. Ownership of house provides mental satisfaction and safety to human being. Home is a place where person feel happy. Without ownership, the individual feels dissatisfaction and alone in his life. House is an asset to a family and it is that investment which increases economic and social development in the society. It increases the wealth of the person and reputation in the society. It is an indicator of standard of living of people. It is a symbol of sound status. Buying a house is most emotional feeling of human being. Housing plays an important role in the economic growth of any country also. It provides   opportunity to new industry, investment and maximum propensity to consume materials equipments and services. The housing sector contributes 4.5% of GDP in the year 2003-2004 which increases to 11% in 2019-2020. It is expected to reach US $ 1 trillion in 2030, contribution of 13% of GDP of the country.

Keywords: Non-Performing Asset (NPA), NPA Management, Public Banks, Private Banks

AREA OF THE STUDY

The area of present study is confined to Haryana state, with main objective of study of home loans and their NPAs of commercial banks in Haryana. Capital of Haryana state is Chandigarh. As per 2011 census in Haryana there are 22 Districts, 154 Towns and 71 Sub- division areas. Most populous city of Haryana is Faridabad and Gurugram is the financial capital of the state. There are 22 districts in Haryana. Haryana is 13th largest economy as per state ranking. In Haryana there are developed cities like Punchkula, Faridabad, Gurugram, Sonipat, karnal which makes the very high growth and requirement of house and housing finance. The growing market of housing finance in Haryana motivated the researcher to select the state, for research area. One more aspect which is very important, there is presence of all major developers like Ajanara, Gaur City, DLF, ALFA city etc. In Haryana the largest housing supplier is Haryana Urban Development Authority (HUDA), which also makes the Haryana housing sector attractive. In Haryana, 37 public and private sector banks are operating with 4718 branches in urban, semi urban and rural areas. As per SLBC report total deposit of state Rs. 410828 crore as on 31 December 2019 and total advances by the commercial banks 271437 crore on 31 December 2019. These are the different variables which motivated the researcher to select the area for research.

DATA COLLECTION

The current research is based on both primary and secondary data. Secondary data was collected through official website of selected public and private sector commercial banks and annual reports of Reserve Bank of India. The research is mainly based on the first hand data that has been procured through a structured questionnaire and personal interviews of public and private sector bankers.

Selected Banks   Table-1 Selected Public and Private Banks

Private Banks	Public Banks
ICICI BANK	STATE BANK OF INDIA
HDFC BANK	PUNJAB NATIONAL BANK
AXIS BANK	BANK OF BARODA

Table-2 Public and Private Sector Banks Employees respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SBI	34	13.4	13.4	13.4
	PNB	55	21.7	21.7	35.0
	ICICI	37	14.6	14.6	49.6
	HDFC	45	17.7	17.7	67.3

AXIS	42	16.5	16.5	83.9
BOB	41	16.1	16.1	100.0
Total	254	100.0	100.0	

Objectives of the Study:

Based on the Research Gap and questions, following objectives have been framed.

1. To analyze the trend of NPA of home loan in the private and public sector banks in Haryana state.
2. To study the causes of NPA of home loans of public and private sector banks.
3. To evaluate the recovery model of NPA of home loans in private and public sector banks.

HYPOTHESES OF THE STUDY

H01. There is no significant difference found in the trend of NPA of home loan in the private and public sector banks.

H02. There is no significant difference in the perception of employee towards NPA in private and public sector bank.

ANALYSIS AND INTERPRETAION

Table -3 (Scale of Measurement)

What is the trend of Non-Performing Assets in home loans from 2011 to 2020 in your branch?

Highly Increasing	Increasing	Constant	Decreasing	Highly Decreasing
5	4	3	2	1

Following comparison of mean scores present the output.

Table -14 (Trends of Home Loans NPAs of Public and Private sector banks)

BankName	Mean	N	Std. Deviation
SBI	4.12	34	.409
PNB	4.56	55	.570
ICICI	2.41	37	.599
HDFC	2.58	45	.543
Axis	2.57	42	.630
BOB	3.41	41	.591

| Total | 3.32 | 254 | 1.024 |

It can be observed from the table-above that for PNB and SBI the opinion of employees lies between highly increasing and increasing category, while the HDFC, ICICI and Axis bank employees are of the opinion that the home loan NPA in their branch is somewhere between constant and decreasing. While, the BOB employees have the opinion that their home loan NPA's are somewhere between constant and increasing. It can be observed that the employees' opinion goes highly in sync with the output of secondary data. The overall opinion of employees lies between constant and increasing. Though, it is visible that the private bank employees have a opinion that the NPA's of home loans are in between constant and increasing while the public sector banks have their opinion on higher side of the scale. Further, the statistical verification of the difference is completed by testing following hypothesis using independent sample t-test, assuming unequal variance and at 5% level of significance.

H_{02}:*There is no significance difference between employees' opinion in public and private sector banks on NPA*

Table-4 (Comparison of Means Home Loan Performance)

Private and Public Sector Bank

BankType	N	Mean	Std. Deviation	Std. Error Mean
Private	103	2.50	.592	.058
Public	151	3.88	.871	.071

Table -5 (Independent Samples Test)

Testing of Hypothesis H_{02}

	Levene's Test for Equality of Variances		t-test for Equality of Means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Equal variances assumed	5.402	.021	-13.974	252	.000	-1.376	.098
Equal variances not assumed			-14.987	251.999	.000	-1.376	.092

It can be seen that the Levene's test is significant and variance difference is significant to assume unequal variances. It is further observed that the p-value in case of unequal variances is less than the level of significance and hence the null hypothesis H_{09} is rejected. It can be concluded that the private sector employees have an opinion that their banks have a better strategy when it comes to NPA's due to home loans with a mean score of 2.50 the employees' believed that their NPA due to home loans are between constant and decreasing while with a mean score of 3.88 the employees of public sector banks believed that their NPA due to home loans is close to increasing.

The bankers are further asked to express their opinion on, "Impact of certain factors for NPA in home loan segment". Following chart presents the output.

Table -6 (Suggestions for reducing NPA of home loans from bankers)

Suggestion		N	Mean	Std. Deviation
Resettlement of Loans	Private	124	2.52	.502
	Public	130	2.55	.500
	Total	254	2.53	.500
Recover EMI from rent for some time if possible for home loans	Private	124	1.49	.502
	Public	130	1.49	.502
	Total	254	1.49	.501
Recovery through sale of assets	Private	124	4.56	.498
	Public	130	4.52	.501
	Total	254	4.54	.499
Reduce home loan ratio	Private	124	3.48	.502
	Public	130	3.48	.501
	Total	254	3.48	.501
Proper supervision and follow up	Private	124	1.56	.499
	Public	130	1.51	.502
	Total	254	1.53	.500
Banks should develop efficient	Private	124	3.47	.501

Appraisal system	Public	130	3.54	.500
	Total	254	3.50	.501
Maintaining continuous rapport with borrowers	Private	124	1.45	.500
	Public	130	1.57	.497
	Total	254	1.51	.501
Banks should given liberty to reduce home loan interest rates for home loans	Private	124	1.44	.498
	Public	130	1.53	.501
	Total	254	1.48	.501
Payment holidays in EMI can be effective tool for Home loan NPAs recovery	Private	124	3.87	.786
	Public	130	3.93	.809
	Total	254	3.90	.797

It can be observed that the Bankers highly agree that recovery through sales of assets is one of the major components to reduce the NPA with a mean score of 4.54 overall. The second most effective method as per bankers is payment holidays in EMI. The least effective methods for reducing NPA mentioned by bankers are proper supervision and follow up, maintaining continuous support with borrowers, and liberty to reduce the home loans. However, when we use analysis of variance it is found that the thought process of private and public sector bank employees is not significantly different on any of the statements as the p-values are above the level of significance for all items.

Impact of factors on home loan NPA

Table -7 (Impact of factors on home loan NPA)

	0 - 20%	20 - 40%	40 - 60%	60 - 80%	80 - 100%
Business shutdown	0%	0%	0%	19%	81%
Illness or increase in medical expenses	0%	84%	16%	0%	0%
Job Loss	0%	0%	0%	22%	78%
Change in government policies	82%	18%	0%	0%	0%
Willful default	10%	85%	4%	0%	0%

High Rate of Interest	100%	0%	0%	0%	0%
Lack of Proper Appraisal for Loans	100%	0%	0%	0%	0%
Lack of supervision and follow up	50%	50%	0%	0%	0%
Natural Calamities	100%	0%	0%	0%	0%
Loans to weaker section increase NPA	0%	0%	0%	52%	48%
More home loan ratio of Assets	54%	46%	0%	0%	0%

It can be observed from the above table that the highest reason for default of home loans is Business Shutdown, Job loss and Loans to weaker section. Bankers believe that 60 – 100% home loan defaults are due to these three factors. The natural calamities, lack of proper appraisal for loans, lack of supervision/follow up, high rate of interest, change in government policies remained the lowest cause for home loan defaults and cater to only 0 – 20% cases. Further, more home loan ratio of assets also remained a cause that is liable to 0 – 40% home loan defaults.

The opinion of bankers also plays an important role in reducing the NPA's. For the purpose the suggestion of bankers for minimizing NPAs in home loans is measured by using a well-established five-point Likert scale as per following details.

Table -8 (Scale of Measurement)

What is the Suggestion for reducing NPA from home loans?

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

Following table presents the comparison of means;

Table -9 (Suggestions for reducing NPA of home loans)

Suggestions for reducing Home Loan NPA	Mean Score
Resettlement of Loans	2.53
Recover EMI from rent for some time if possible, for home loans	1.49
Recovery through sale of assets	4.54
Reduce home loan ratio	3.48
Proper supervision and follow up	1.53

Banks should develop efficient Appraisal system	3.50
Maintaining continuous rapport with borrowers	1.51
Banks should give liberty to reduce home loan interest rates for home loans	1.48
Payment holidays in EMI can be effective tool for Home loan NPAs recovery	3.90

It can be observed that the highest agreement appears on the suggestion that the home loans shall be recovered by selling the assets. This indicates that the policy of recovery by selling the assets shall be flawless and smooth. The bankers hardly agreed that the recovery of EMI shall be ensured through rent. This may be due to the cause that EMI of home loan generally remains higher than rent and tenet management will cost a lot of manpower and will give a rise to corruption as well. Bankers disagreed on home loan rate independence because this will give rise to an unethical banking competition further maintaining efficient appraisal system, proper supervision/follow-up and maintaining continuous rapport of borrowers is also not appreciated suggestion. This is due to the fact that most of the banks follow a proper system for all three components and continuously improve on these systems. The bankers agreed average on payment holidays in EMI and reduce home loan NPAs. This shows there is a scope of improvement in these areas and a better strategy can be designed.

Further the statistical significance of differences is tested using analysis of variance. Following null hypothesis is established and tested for the purpose at 5% level of significance.

:There is no significance difference between employees' suggestions

Table – 10 (Testing of hypothesis H_{03})

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	2990.40	8.00	373.80	1275.64	0.00	1.94
Within Groups	664.59	2268.00	0.29			
Total	3655.00	2276.00				

It can be observed that the p-value is less than the level of significance and hence the hypothesis H_{10} is rejected. This can be concluded that the difference on suggestions is statistically significant and the suggestions with high mean scores can be adopted with 95% confidence by the banks to reduce NPA due to home loans.

In order to check that how much aligned the thought process of bankers and borrowers is? A small questionnaire is shared with the borrowers. The borrowers first asked whether they have a bank loan or not. The people who don't have a liability of home loan are not considered for the sample. In total 470 people are contacted after sorting and filtering the incomplete and non-relevant Reponses the sample of

304 healthy responses is considered for the study. First certain necessary demographics such as age of the borrowers is recorded. Following chart present the results.

FINDING

1. It can be observed that the Bankers highly agree that recovery through sales of assets is one of the major components to reduce the NPA with a mean score of 4.54 overall. The second most effective method as per bankers is payment holidays in EMI.
2. It can be observed from the above table that the highest reason for default of home loans is Business Shutdown, Job loss and Loans to weaker section. Bankers believe that 60 – 100% home loan defaults are due to these three factors.
3. The bankers hardly agreed that the recovery of EMI shall be ensured through rent. This may be due to the cause that EMI of home loan generally remains higher than rent and tenet management will cost a lot of manpower and will give a rise to corruption as well.

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