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EVALUATING THE PROBLEMS FACING DURING LOAN RECOVERY AND ITS MEASURES TO REDUCE THE INCIDENCE OF LOAN DEFAULT

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ABSTRACT

A bank is a type of financial institution whose main functions are those of a payment processor and a lender or lender of money to individuals and businesses. A bank is an organization that accepts, stores, and lends money with the expectation of future return. Only primary sources were used for this investigation. The researcher used a stratified random sampling technique to choose the sample. This study needs to use 2018 as its reference year. Primary and secondary resources were mined for information. Primary data was gathered mostly through questionnaires, while secondary data was compiled from a wide range of relevant publications. Analyses of primary data are conducted with the use of standard statistical methods like percentages and Chi-square tests. The researcher compiled, displayed, and evaluated all pertinent data. The article's analysis should utilize the bank's methodology for categorizing the types of loans and the people who receive them.

Keywords: Banks, Loan Granting, Loan Recovery, Borrowers, Problems

I. INTRODUCTION

A financial institution that offers banking and related services to the general public is called a bank. While most people think of a bank when they hear the words "bank" or "banking," they may not realize that non-banking entities, which do not satisfy the legal definition of a bank, also offer certain banking services.

NonPerforming Assets (NPA) containment has been an area of particular strength for Indian banks, and this has been accomplished remarkably well in light of the overall challenging climate. Recovery is a crucial to the stability of the banking industry. Bank interest margins are also tied to recovery management. The future of India's banking industry depends on effective cost and recovery management backed by an enabling legislative environment. Without a doubt,

expeditions and effective measures in legal institutions and judicial systems are needed to improve recovery management in India. There are now significant challenges for banks in collecting loans and enforcing securities charged to them. The current process for recovering debts owed to banks has trapped a significant chunk of their resources in non-productive assets whose value declines over time.

Unrepaid debts are referred to as "problem credits." Uncertainty about a borrower's tendency and ability to make complete repayment of all obligations is reflected in the prevalence of problem loans and losses. The possibility of making a mistake exists at every stage of the funding procedure. Sometimes the data used to create credit reports is inaccurate. A loan officer's loyalty to the bank may lead them to disregard the loan's true status if the borrower's ability to repay the loan changes after it has been provided. If a bank's leadership is just focused on preventing losses, that bank will not lend nearly as much money to customers, leading to fewer earnings and an unsatisfied need for credit. Since lenders cannot eliminate risk completely, losses will occur. The bank needs effective loss control solutions to reach its risk and return goals. When obligations owed to creditors are not paid in whole or in part due to a lack of resources, this is known as insolvency. A portion of accounts receivable consists of consumer loans made by financial institutions that have not been returned by the due date owing to loan defaults (bad debt).

II. REVIEW OF LITERATURE

BuwuleMusoke, Henry &Aketch, Irene (2021) Using Stanbic Bank, one of the biggest and most international commercial banks in Uganda, this research analyzed how reorganizing loan recovery affected the bank's bottom line. The researchers used a cross-sectional, correlational survey format for their investigation. In addition, it was planned as a case study mixed techniques approach to data collecting and analysis. A total of 140 participants, including bank staff and customers, filled out a semi-structured questionnaire utilizing a likert scale to provide responses. Methods of analysis included narrating and describing the data, as well as employing Pearson's correlation and basic linear regression. The results show that the profitability of Stanbic Bank is affected by the reorganization of loan recovery. According to the results, Stanbic Bank's bottom line benefited greatly from the reorganization of its debt recovery process. The study suggested that in order to fully recover the loans without distressing the businesses, senior managers and loan officers should conduct the necessary follow up actions by visiting the businesses of their clients to monitor and evaluate how the businesses are performing and what adjustments or changes need to be made.

Nehrebecka, Natalia. (2019) Most of the credit risk modeling in the empirical literature focuses on default likelihood rather than loss given default. This research uses monthly panel data from

2007-2018 collected from individual prudential institutions to forecast recovery rates using the nonparametric Bayesian Model Averaging and Quantile Regression technique. The credit history of the company's dealings with various financial institutions served as the basis for the models' development. The study discusses two methods, referred to as PIT and TTC, respectively. When assessing recession and anticipated credit losses, Quantile Regression, which obtains a complete perspective of the full probability distribution of losses, trumps alternatives. A fully operating bank that does not expose itself to the danger of bankruptcy due to such losses relies on an accurate calculation of the LGD parameter, which in turn impacts the right quantities of retained reserves.

Wang, Hong & Forbes, Catherine &Fenech(2018)We find that the factors that explain banks' loan recovery rates change depending on where the economy is in its life cycle. To account for the time-dependent variation in recovery rates, the latent credit cycle is represented as a two-state Markov switching mechanism. We show that the difference in recovery rates between "good" and "poor" phases of the credit cycle may be accounted for by the chance of default in addition to loan-specific and other variables. That is to say, under differing credit market circumstances, the connection between recoveries and loan and business characteristics and the chance of default will seem quite different. There are major repercussions for how we approach capital retention, especially with regard to counter cyclicality.

Rifas, A., et al., (2016) The major goal of this research is to better understand the reasons why certain borrowers have difficulty repaying their bank loans. Credit policy, installment, environment, and political factors all have significant bearing on the success with which Islamic banking institutions in Sri Lanka recover defaulted loans. This analysis made use of primary data. The borrowers in Akkaraipattu who have used the services of Amana Bank PLC are the subjects of this study. A quantitative census was carried out by the Amana Bank branch in Akkaraipattu. A survey was sent to customers who had just taken out a loan in order to collect this data. The response rate was 67%, which means that out of 100 surveys, 67 were complete enough to be evaluated.SPSS was used for statistical tests like correlation and regression.All four factors were analyzed in this research, as shown by the findings. Loan repayment is affected by credit policy, repayment schedule, weather, and political situation. If the hypotheses are verified, it will show that there is a correlation between the dependent and independent variables, indicating that all of these factors contribute to the timely repayment of bank loans in Islamic financial institutions.

Dhar, Rajib (2013) Over the last decade, there has been a massive growth in India's loan sector. While the credit market has been on the upswing recently, rising default rates pose a serious threat to India's financial institutions. Therefore, it is theorized that certain banks are using the services of loan recovery organizations, whose major objective is to collect the debts from the

defaulters by whatever means required (even illegal). The focus of this research is on how loan defaulters feel and think when confronted with debt collectors from financial institutions. Sixteen in-depth interviews and other qualitative methods were used to compile this data. Results indicate that it is critical for society's leaders and benefactors to continue utilizing research to uncover and condemn unethical conduct.

Cotugno, Matteo&Stefanelli, Valeria (2011) The potential benefits of bank-borrower interactions have been the subject of fewer research. Surprisingly little empirical study has examined banks' benefits in terms of loan recovery rate, relative to loss given default rate. In contrast, choosing the best method for managing loans is of utmost significance in the current credit market, where there has been a major deterioration in the quality of bank loans. This study uses a controlled experiment to test the claim that relationship-oriented financial institutions have lower default-related losses. Bank size and functional distance are two criteria that may be used to assess the quality of relationship lending. This study looks at the debt collection practices of Italian banks between 2005 and 2008 to see how effective they were. The data was produced by ABI Banking Data and the Bank of Italy. The evidence suggests that financial institutions with a strong emphasis on building relationships are in the best position to collect defaulted debts. There are managerial ramifications of this study's findings.

III. RESEARCH METHODOLOGY

Sample size:180 participants were randomly chosen for the analysis.

Data Collection: Both primary and secondary sources were used to compile this report. The main source was the most important because of the bank employees' replies to the questionnaire. Textbooks, scholarly publications, and articles by other experts made comprised the secondary sources.

Method of data collection: A systematic questionnaire was sent out to bank employees in order to gather information on the kind of loans given out, the number of people who benefited from such loans, the percentage of borrowers who were late on payments, and other factors.

Statistical tools: Statistical methods like the percentage and Chi-square test are used to the primary data.

IV. ANALYSIS AND INTERPRETATION OF DATA

Table 4.1: Type of loan grant

Types of loan grant	Percentage
Short-term	58.67%
Medium-term	28%
Long-term	13.33%
Total	100

According to Table 4.1, there were 58.67% of people who agreed that the bank offers payday loans. Medium-term loans were reported by 28% of respondents, while long-term loans were reported by 13% of respondents.

Table 4.2: Sectorial allocation of loan

Types of Sectorial	Percentage
Agricultural loan	10.67%
Industrial loan	52%
Personal loan	25.33%
Corporate enterprises	12%
Total	100

Table 4.2 shows that 10.67% of respondents are in the business of providing farm loans. Of the whole sample, 52% stated they provide loans for businesses, while 25% claimed they do so for individuals. In reality, just 12% of all businesses are really granted any kind of grant.

Table 4.3:Problems faced during loan recovery

Problems faced during loan recovery	Percentage
Customer unable to pay	14.67%
Lack of collateral	30.67%
Inability to arrest customer	54.66%

Total	100

According to Table 4.3, 30.67 percent of respondents reported problems with insufficient collateral, 14.67 percent with borrowers who couldn't pay back their loans throughout the loan recovery process, and 54.66 percent with borrowers who couldn't be apprehended.

Table 4.4: Reduce the incidence of loan default

Reduce the incidence of loan default	**Percentage**
Demand notice	12%
Taking legal action	57.33%
Realizing the security	30.67%
Total	100

According to Table 4.4, 1 in 10 respondents thinks that sending a demand letter is the best way to prevent default on a loan. The majority of respondents (57.33%) believe that legal action will be taken to lower the rate of loan default. While 30.67 percent of respondents to the loan default questionnaire believed that realizing the security would aid in lowering default rates. The correct response will be taken into account when we try to fathom what factors contribute to the observed differences in how various banks function.

V. CONCLUSION

When people put their money in banks so that the banks may lend it out, there is a risk that those people won't have enough money to meet their own financial obligations. Customers have the right to make inquiries to the bank. If this occurs, the bank won't be able to achieve its objectives. People would lose faith in banks as a consequence. The authors of this study argue that the inherently speculative structure of loan repayment schedules makes it impossible to eliminate all risk associated with the creation of credit via the issuing of loans. Commercial banks often end up with bad debt from loans that go unpaid.

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