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DEMYSTIFYING NPAS ON EDUCATION LOAN: A SURVEY (WITH SPECIAL REFERENCE TO SELECTED URBAN, RURAL AREAS AND BANK OFFICIALS OF ODISHA)

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ABSTRACT

The quantum of NPA of Indian Banking has undergone a significant decline. Still it is high by international standards and posing a serious problem of the Indian banking sector affecting its earning capacity and profitability. Present paper makes an attempt to analyze the quantitative trend and pattern in growth of NPA with reference to education loan scheme. An effort has been made to analyze the causes of default by surveying defaulters. Odisha was selected for the study from the point of view of accessibility of the researcher to collect the data and able to finish the research within a stipulated period. The bank officials of selected branches and the students of different colleges in Urban, Rural area are surveyed through questionnaires made for the purpose. Different factors causing NPA on student loan scheme are analyzed and suggestions made to

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overcome the problem. For the purpose of confidentiality we are not mentioning the names of the bank.

Key words: NPA, Education Loan, Semi-urban area & rural area

INTRODUCTION:

The education loan scheme was introduced in 1992 with the aim of enabling access to tertiary education for everyone who wants it. There are three government agencies involved in schemes. The Ministry of education for strategic policies in relation to the education loan scheme, on their website, one can find links to the other agencies, current topics, debt projections, comparison of repayment periods by gender and ethnicity, the repayment estimator and the data integration project. Study link (a division of the Ministry of Social Development) is responsible for the administration and delivery of student loans to students during the study. After the end of each academic year Study link transfers those loans to Inland Revenue for collection. Inland Revenue is responsible for collecting student loan repayment from the year after the money is borrowed and administering interest write-offs. During the study made on the banks, it is informed by the bank officials that different banks have their own norms for the education loans and it varies from bank to bank. But the fact is that only few students apply for loan for studies in India. Mostly they apply for loan for studies abroad. The loan requires guarantors. However there is quite a large section of loan seekers particularly in Bhubaneswar, who are not able to take the advantage of loans because of their inability to produce co-guarantors. From the students point of view for approaching education loans, one has to be below age 30 to be eligible. The loans from various banks are only being provided to full time students. It is very good that the banks are giving financial support to students but banks provide these loans only to those students who give big securities to banks, but those students who belong to poor families, find it difficult to manage security. So these securities are not beneficial for poor students. To get education loan from bank one has to show some property or the parent's salary. The banks don't just trust the identity of students and also the college offer letter. Students should not depend on loan too much because it's hard to come unless one is very good students with good academic track record.

OBJECTIVES OF THE STUDY

- To study the factors responsible for growth of NPAs from lenders and borrowers perspective in urban and rural areas.
- Studying in problem in relation to NPAs in urban and rural areas.
- To give suggestions to overcome the problem of NPAs.

LIMITATIONS OF THE STUDY

- The study is restricted to the selected urban, rural areas of Odisha only.

- The sample is limited; it may not represent scenario of all the beneficiaries of urban and rural areas.
- The period of study conducted for the period of 3 months i.e. January 2011 to March 2011.

RESEARCH UNIVERSE AND METHODOLOGY

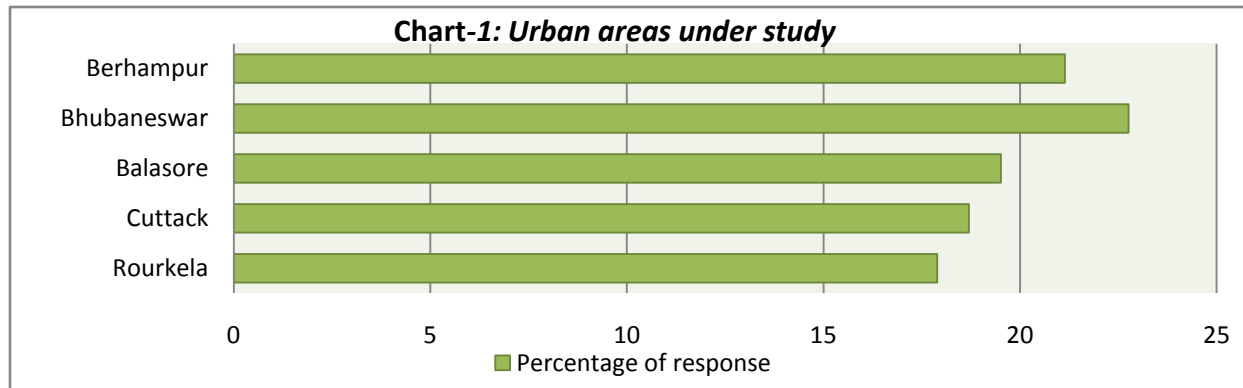
With reference to the selection of the research universe the state of Odisha has been selected with specifications to the compulsions of the geographical territory, linguistic boundary, and administrative settlement commonness. Odisha is an Eastern Indian state, the state boundaries are on the Bay of Bengal Sea. South- Andhra Pradesh, West –Chhatisgarh and Jharkhand, North-West Bengal having a total area of 1, 55,707 Square Kilometers with total population of 36,706,920 (as per Indian census survey-2001) , population density 236 per Square Kilometers, Sex Ratio 972 literacy rate of 63.61%. The state is comprising of 30 districts (Administrative Divisions) and 58 Sub-Divisions.

SAMPLING PLAN

In support to the objective of the research there is a primary research through questionnaire administration method in the field through stratified random sampling method covering the state through regional, geographical, economic, cultural, lingual and settlement wise. . Out of 325 questionnaires served 261 students responded. The response rate was 80.31%. Similarly, 60 questionnaires administered to bank officials out of which 47 responded, which is 78.33%.

TABLE-1: URBAN AREAS UNDER STUDY

<i>Area under study</i>	<i>Questionnaire served</i>	<i>Response</i>	<i>Percentage of response to total response</i>
Rourkela	30	22	17.89
Cuttack	30	23	18.70
Balasore	30	24	19.51
Bhubaneswar	30	28	22.76
Berhampur	30	26	21.14
Total	150	123	100

**TABLE-2: RURAL AREAS UNDER STUDY**

<i>Area under study</i>	<i>Questionnaire served</i>	<i>Response</i>	<i>Percentage of response to total response</i>
Jaanla - Khurda District	20	16	11.59
Sundarapada - Khurda District	25	18	13.04
Mendhasala- Khurda District	25	17	12.32
Saptasajya - Dhenkanal District	25	23	16.68
Ghatagan - Keonjhar District	20	14	10.14
Chandol - Kendrapara District	20	17	12.32
Banthapalli – Ganjam District	20	16	11.59
Singla - Balasore District	20	17	12.32
Total	175	138	100

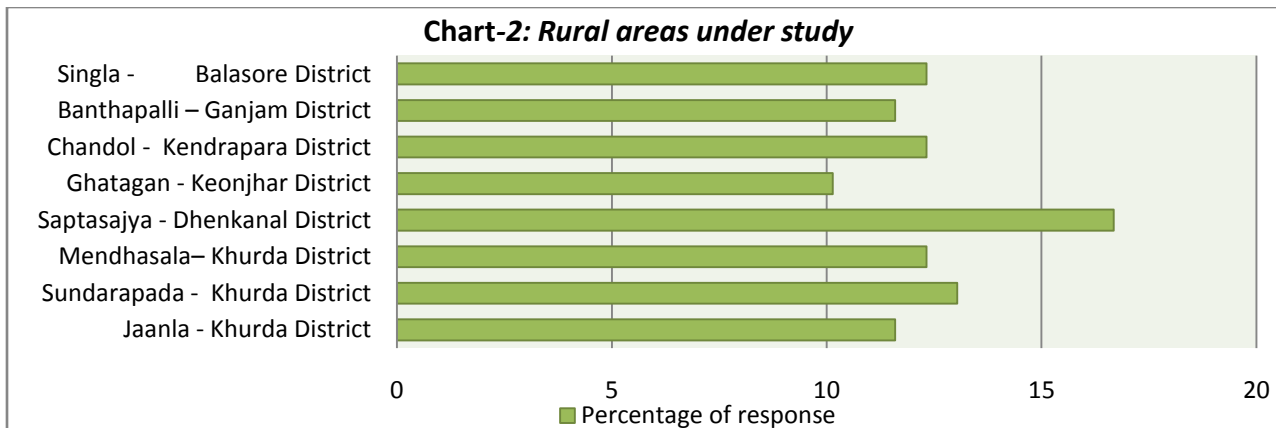
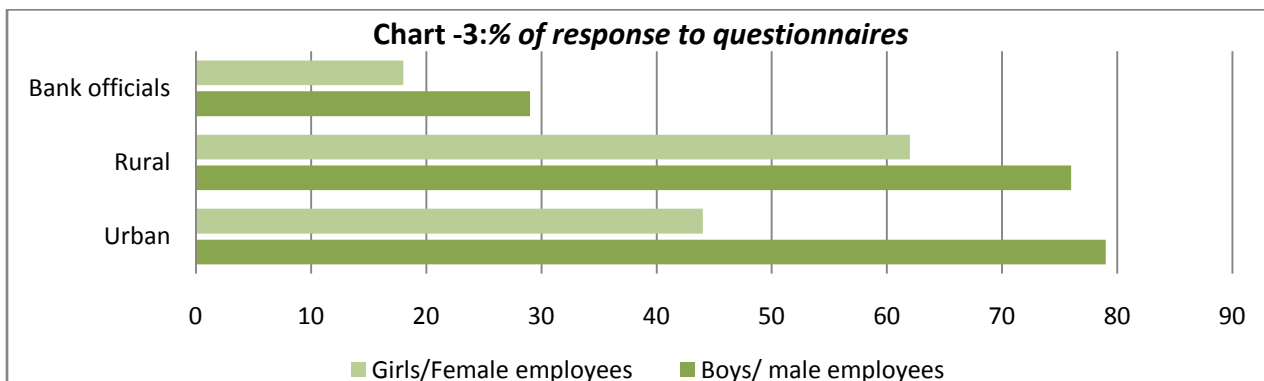


TABLE-3: CONSTITUENTS OF SAMPLE SIZE

<i>Population</i>	<i>Questionnaire served</i>	<i>Response received</i>	<i>Boys/ male employees</i>	<i>Girls/Female employees</i>	<i>% of response to questionnaires</i>
Urban	150	123	79	44	82
Rural	175	138	76	62	78.86
Bank officials	60	47	29	18	78.33
Total	385	308	184	124	80



RESPONDENTS’ PERCEPTION WITH REGARD TO NPAS ON EDUCATION LOAN

To measure the perception level of the participants with regard to NPAs on education loan the various variables identified as Academic failure , Borrowers willingness to pay and ability to pay , Default rate more in under graduate courses than post graduate courses , Students dropout , Non-professional courses , Unemployment and working at lower wage , Presence of other

important loans , Dissatisfaction with institutions and education program, Intervening personal problems like divorce, widow or more dependent family members , Male borrower chances of default are more than female borrowers , Absence of parents and lower parental income , Higher debt of the borrower, Short-term programs chances of higher default than long-term programs , Multiple lenders , Wrong selection of beneficiary , Improper post monitoring policy of banks , Failure of debt collection machinery , Improper verification of documents at the time of sanction, Dishonesty by bank employee , Political interference and have been assigned as +3,+2,+1,0 and -1 for the responses of the respondents “ Completely agree”, “ Agree”, “ Neither agree nor disagree”, “ Disagree” and “ Completely disagree” respectively. Final scores for each feature are calculated by multiplying the number of response by the weights of the corresponding response.

CALCULATION OF RESPONDENTS' PERCEPTION: IDEAL AND LEAST SCORES

Ideal scores are calculated by multiplying the number of respondents in each category with (+3) and product with total number of attributes. Least scores calculated by multiplying the number of respondents in each category with (-1) and the product with number of attributes in the questionnaires.

TABLE-4: IDEAL SCORE AND LEAST SCORES

<i>Category</i>	<i>Equation</i>	<i>Ideal score</i>	<i>Equation</i>	<i>Least score</i>
<i>Urban boys</i>	$20 \times 3 \times 79$	4740	$20 \times -1 \times 79$	-1580
<i>Urban girls</i>	$20 \times 3 \times 44$	2640	$20 \times -1 \times 44$	-880
<i>Rural boys</i>	$20 \times 3 \times 76$	4560	$20 \times -1 \times 76$	-1520
<i>Rural girls</i>	$20 \times 3 \times 62$	3720	$20 \times -1 \times 62$	-1240
<i>Male bank officials</i>	$20 \times 3 \times 29$	1740	$20 \times -1 \times 29$	-580
<i>Female bank officials</i>	$20 \times 3 \times 18$	1080	$20 \times -1 \times 18$	-360

FINDINGS OF THE STUDY

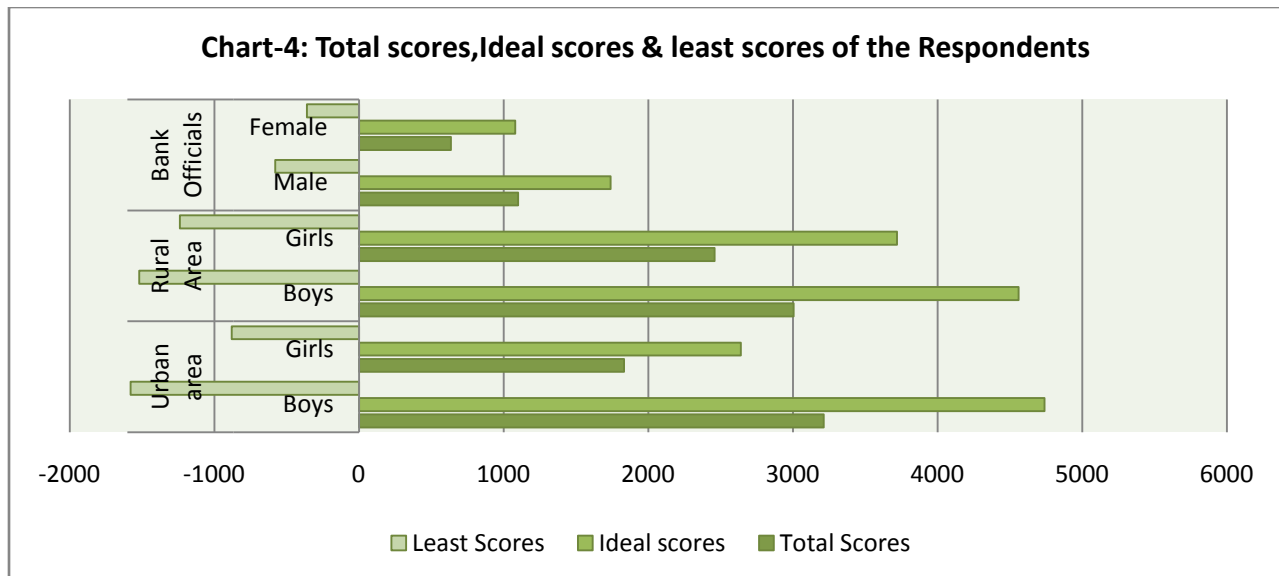
Findings of the study are as under. The tables are formed on the basis of questions contained in the questionnaire.

TABLE-5: RESPONSE OF THE RESPONDENTS

Variables/ Attributes	Aggregate Scores					
	Urban area		Rural area		Bank Officials	
	Boys	Girls	Boys	Girls	Male	female
Academic failure	169	88	149	143	60	34
Borrowers willingness to pay and ability to pay	174	105	156	126	54	28
Default rate more in under graduate courses than post graduate courses	150	100	142	123	65	26
Students dropout	173	92	154	110	44	26
Non-professional courses	127	85	142	106	64	30
Unemployment and working at lower wage	174	92	143	131	48	34

Presence of other important loans	167	92	158	103	54	41
Dissatisfaction with institutions and education program	183	81	173	136	50	40
Intervening personal problems like divorce, widow or more dependent family members	163	89	161	128	43	33
Male borrower chances of default are more than female borrowers.	139	85	129	133	58	31
Absence of parents and lower parental income	155	90	162	135	57	31
Higher debt of the borrower	151	94	136	135	46	34
Short-term programs chances of higher default than long-term programs	164	89	153	124	70	38
Multiple lenders	156	99	172	111	64	30
Wrong selection of beneficiary	164	87	127	135	45	24
Improper post monitoring policy of banks	171	85	168	116	58	27
Failure of debt collection machinery	174	105	166	114	59	34
Improper verification of documents at the time of sanction	143	96	134	113	58	31
Dishonesty by bank employee	151	81	131	114	44	36
Political interference	164	96	148	123	58	28
Total scores	3212 (67.76)	1831 (69.36)	3004 (65.88)	2459 (66.10)	1099 (63.16)	636 (58.89)
Ideal scores	4740	2640	4560	3720	1740	1080
Least Scores	-1580	-880	-1520	-1240	-580	-360
No. of Respondents	79	44	76	62	29	18

Source: Annexure A,B, C,D,E and F



INTERPRETATION:

In the present case the ideal score for urban boys is 4740 and the total score is 3212 which is 67.76% of ideal score. For the urban girls the ideal score is 2640 and the total score is 1831 which is 69.36 of the ideal score. Similarly for rural boys, total score is 3004 and ideal score is 4560, for rural girls the same is 2459 and 3720 respectively. In case of bank male and female officials the total scores are 1099 and 636 and ideals scores are 1740 and 1080 respectively. These scores gives approval for the validity of various attributes considered in the questionnaire. In no point the total score touched the least score. Urban boys and girls leads the table with 67.76% and 69.36%, followed by the rural boys and girls 65.88% and 66.10% and for the bank officials for male it is 63.16% and for females 58.89%.

CONCLUDING NOTE:

NPAs are seriously affecting the efficient management of funds. It affects the profitability of the banks and reduces the availability of resources for mobilization besides increasing their costs. It also puts a question mark on the viability and solvency of the organization. Causes of default identified through field surveys need to be sorted out. Concerted efforts are required at the bank level to improve the credit appraisal and monitoring skills of the managers so that potential default can be identified at an early stage. The occurrences of NPA may not avoidable entirely but they can be managed effectively. The fresh incidences of NPAs should be avoided but not at the cost of fresh deployment of credit.

SUGGESTIONS

- Selection of the student is more important, before finalization of loan amount proper screening should be done.

- As far as possible the bank should give loan to the students who are pursuing the professional courses like medical, engineering and management. It increases the employability of the student.
- The students who pursue the regular courses should be provided loan.
- Age of the student should be given preference as study suggests that the older students having tendency not to pay back the loan amount as compared to younger students.
- The placement record of the institute where student's studies should be verified before sanctioning the amount.
- The course curriculum of the institute where student studies should be cross checked for employment point of view.
- The efficiency of debt collection machinery of the lending bank should be increased.
- Proper post-monitoring should be made by the concerned bank for these loans to avoid the possibility of NPA.
- Internal moral check on employees should be initiated to avoid any misappropriation or fraud.
- Interference of politicians and bureaucrats should be controlled.
- Before giving loan the indebtedness of the loanee should be checked.

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ANNEXURE-A						
Variables	Opinion of Urban Boys					Scores
	Completely agree	Agree	Neither agree nor disagree	Disagree	Completely disagree	
	3	2	1	0	-1	
Academic failure	39	21	12	5	2	171-2=169
Borrowers willingness to pay and ability to pay	43	18	10	7	1	175-1=174
Default rate more in under graduate courses than post graduate courses	32	25	11	4	7	157-7=150
Students dropout	40	19	15	5	0	173-0=173
Non-professional courses	25	25	9	13	7	134-7=127
Unemployment and working at lower wage	31	35	12	0	1	175-1=174
Presence of other important loans	28	37	10	3	1	168-1=167
Dissatisfaction with institutions and education program	37	33	7	1	1	184-1=183
Intervening personal problems like divorce, widow or more dependent family members	35	25	11	5	3	166-3=163
Male borrower chances of default are more than female borrowers.	24	20	30	2	3	142-3=139
Absence of parents and lower parental income	28	30	13	6	2	157-2=155
Higher debt of the borrower	31	27	11	3	7	158-7=151
Short-term programs chances of higher default than long-term programs	33	28	13	1	4	168-4=164
Multiple lenders	31	30	8	5	5	161-5=156
Wrong selection of beneficiary	35	28	9	1	6	170-6=164
Improper post monitoring policy of banks	40	21	11	5	2	173-2=171
Failure of debt collection machinery	36	32	5	3	3	177-3=174
Improper verification of documents at the time of sanction	29	27	10	4	8	151-8=143
Dishonesty by bank employee	27	32	8	10	2	153-2=151
Political interference	39	21	11	2	6	170-6=164

Source: Compiled from field Survey

ANNEXURE-B						
Variables	Opinion of Urban Girls					Scores
	Completely agree	Agree	Neither agree nor disagree	Disagree	Completely disagree	
	3	2	1	0	-1	
Academic failure	20	13	5	3	3	91-3=88
Borrowers willingness to pay and ability to pay	22	18	3	1	0	105-0=105
Default rate more in under graduate courses than post graduate courses	19	19	5	1	0	100-0=100
Students dropout	15	23	2	3	1	93-1=92
Non-professional courses	20	11	7	2	4	89-4=85
Unemployment and working at lower wage	17	20	4	0	3	95-3=92
Presence of other important loans	15	21	6	1	1	93-1=92
Dissatisfaction with institutions and education program	15	13	12	2	2	83-2=81
Intervening personal problems like divorce, widow or more dependent family members	19	15	5	2	3	92-3=89
Male borrower chances of default are more than female borrowers.	15	20	4	1	4	89-4=85
Absence of parents and lower parental income	21	11	7	3	2	92-2=90
Higher debt of the borrower	22	10	9	2	1	95-1=94
Short-term programs chances of higher default than long-term programs	18	14	2	5	5	84-5=79
Multiple lenders	19	20	3	1	1	100-1=99
Wrong selection of beneficiary	15	21	4	1	3	91-3=88
Improper post monitoring policy of banks	17	15	5	6	1	86-1=85
Failure of debt collection machinery	23	17	3	0	1	106-1=105
Improper verification of documents at the time of sanction	20	15	7	1	1	97-1=96
Dishonesty by bank employee	13	18	9	1	3	84-3=81
Political interference	18	19	5	1	1	97-1=96

Source: Compiled from field Survey

ANNEXURE-C						
Variables	Opinion of Rural Boys					Scores
	Completely agree	Agree	Neither agree nor disagree	Disagree	Completely disagree	
	3	2	1	0	-1	
Academic failure	25	31	13	6	1	150-1=149
Borrowers willingness to pay and ability to pay	22	40	11	2	1	157-1=156
Default rate more in under graduate courses than post graduate courses	22	35	10	5	4	146-4=142
Students dropout	23	39	8	5	1	155-1=154
Non-professional courses	29	23	14	5	5	147-5=142
Unemployment and working at lower wage	30	25	10	4	7	150-7=143
Presence of other important loans	33	25	13	1	4	162-4=158
Dissatisfaction with institutions and education program	30	38	7	1	0	173-0=173
Intervening personal problems like divorce, widow or more dependent family members	35	27	7	2	5	166-5=161
Male borrower chances of default are more than female borrowers.	23	29	11	4	9	138-9=129
Absence of parents and lower parental income	33	25	14	3	1	163-1=162
Higher debt of the borrower	25	29	9	7	6	142-6=136
Short-term programs chances of higher default than long-term programs	25	34	13	1	3	156-3=153
Multiple lenders	32	36	5	2	1	173-1=172
Wrong selection of beneficiary	21	30	11	7	7	134-7=127
Improper post monitoring policy of banks	40	21	9	3	3	171-3=168
Failure of debt collection machinery	32	32	7	4	1	167-1=166
Improper verification of documents at the time of sanction	28	23	10	9	6	140-6=134
Dishonesty by bank employee	23	29	11	6	7	138-7=131
Political interference	27	31	9	5	4	152-4=148

Source: Compiled from field survey

ANNEXURE-D						
Variables	Opinion of Rural Girls					Scores
	Completely agree	Agree	Neither agree nor disagree	Disagree	Completely disagree	
	3	2	1	0	-1	
Academic failure	25	32	4	1	0	143-0=143
Borrowers willingness to pay and ability to pay	21	29	7	3	2	128-2=126
Default rate more in under graduate courses than post graduate courses	23	27	5	2	5	128-5=123
Students dropout	19	21	13	7	2	112-2=110
Non-professional courses	25	15	10	3	9	115-9=106
Unemployment and working at lower wage	21	30	9	1	1	132-1=131
Presence of other important loans	17	19	13	4	9	102-9=93
Dissatisfaction with institutions and education program	23	30	7	2	0	136-0=136
Intervening personal problems like divorce, widow or more dependent family members	30	20	5	0	7	135-7=128
Male borrower chances of default are more than female borrowers.	21	32	7	1	1	134-1=133
Absence of parents and lower parental income	31	17	9	4	1	136-1=135
Higher debt of the borrower	27	22	11	1	1	136-1=135
Short-term programs chances of higher default than long-term programs	23	23	10	5	1	125-1=124
Multiple lenders	20	23	11	2	6	117-6=111
Wrong selection of beneficiary	23	30	7	1	1	136-1=135
Improper post monitoring policy of banks	17	29	10	3	3	119-3=116
Failure of debt collection machinery	28	15	7	5	7	121-7=114
Improper verification of documents at the time of sanction	23	19	10	6	4	117-4=113
Dishonesty by bank employee	25	20	5	6	6	120-6=114
Political interference	21	25	11	4	1	124-1=123

Source: Compiled from field survey

ANNEXURE-E						
Variables	Opinion of bank Male officials					
	Completely agree	Agree	Neither agree nor disagree	Disagree	Completely disagree	Scores
	3	2	1	0	-1	
Academic failure	15	6	4	3	1	61-1=60
Borrowers willingness to pay and ability to pay	11	9	5	2	2	56-2=54
Default rate more in under graduate courses than post graduate courses	13	11	4	1	0	65-0=65
Students dropout	10	7	5	2	5	49-5=44
Non-professional courses	13	9	7	0	0	64-0=64
Unemployment and working at lower wage	11	8	3	3	4	52-4=48
Presence of other important loans	9	12	4	3	1	55-1=54
Dissatisfaction with institutions and education program	8	10	6	5	0	50-0=50
Intervening personal problems like divorce, widow or more dependent family members	7	11	3	5	3	46-3=43
Male borrower chances of default are more than female borrowers.	13	8	5	1	2	60-2=58
Absence of parents and lower parental income	12	10	3	2	2	59-2=57
Higher debt of the borrower	11	9	1	2	6	52-6=46
Short-term programs chances of higher default than long-term programs	17	8	3	1	0	70-0=70
Multiple lenders	13	12	2	1	1	65-1=64
Wrong selection of beneficiary	11	7	3	3	5	50-5=45
Improper post monitoring policy of banks	14	5	7	2	1	59-1=58
Failure of debt collection machinery	11	11	5	1	1	60-1=59
Improper verification of documents at the time of sanction	9	15	2	2	1	59-1=58
Dishonesty by bank employee	7	11	5	2	4	48-4=44
Political interference	10	12	5	1	1	59-1=58

Source: Compiled from field Survey

ANNEXURE-F						
Variables	Opinion of bank Female Officials					Scores
	Completely agree	Agree	Neither agree nor disagree	Disagree	Completely disagree	
	3	2	1	0	-1	
Academic failure	7	6	2	2	1	35-1=34
Borrowers willingness to pay and ability to pay	5	6	3	2	2	30-2=28
Default rate more in under graduate courses than post graduate courses	5	5	3	3	2	28-2=26
Students dropout	6	5	2	1	4	30-4=26
Non-professional courses	7	5	2	1	3	33-3=30
Unemployment and working at lower wage	8	5	2	1	2	36-2=34
Presence of other important loans	9	6	2	1	0	41-0=41
Dissatisfaction with institutions and education program	8	8	1	0	1	41-1=40
Intervening personal problems like divorce, widow or more dependent family members	7	6	2	2	1	35-1=34
Male borrower chances of default are more than female borrowers.	5	8	2	1	2	33-2=31
Absence of parents and lower parental income	6	6	2	3	1	32-1=31
Higher debt of the borrower	5	9	2	1	1	35-1=34
Short-term programs chances of higher default than long-term programs	8	6	2	2	0	38-0=38
Multiple lenders	7	4	2	4	1	31-1=30
Wrong selection of beneficiary	6	3	2	5	2	26-2=24
Improper post monitoring policy of banks	7	4	1	3	3	30-3=27
Failure of debt collection machinery	9	3	3	1	2	36-2=34
Improper verification of documents at the time of sanction	7	5	2	2	2	33-2=31
Dishonesty by bank employee	7	7	2	1	1	37-1=36
Political interference	5	5	5	1	2	30-2=28

Source: Compiled from field Survey