

## Ability to Repay Loans to the Banks in Hooghly District

Vivekananda Meta

*This paper investigates the determinants of the borrower's ability to repay loans to the banks in Hooghly district in West Bengal. We have collected the primary data from 400 sample borrowers who have taken loans from commercial, regional rural and co-operative banks. The probit and logit models are employed to identify the main determinants that influence ability to repay loans of the borrowers. The study shows that the ability to repay loans of the borrowers is influenced by the growth rate of income, worker population ratio, productive use of loans, shortfall of desired investment, interest rate differential and education. The ability to repay loans to the banks varies directly with the level of income.*

### I Introduction

The ability to repay loans to the banks is the basic and primary objective of intake of bank loans. We know bank loans are taken with the purpose of investment. If the loans are utilized for productive purposes, then income will be generated and the borrowers will be able to repay them. If the process goes on in this manner the wheel of development will smoothly run. But in the rural areas many institutional credit sectors are breaking down due to bank defaults or overdues. As a result, the banking facilities cannot be increased there and further they cannot be extended to different corners of the society. So ability to repay loans to the banks is a vital factor to build up the society. In this paper we attempt to find out the different factors that help to improve the repayment of loans.

The ability to repay loans to the banks is the explained variable in our study in our logit model of ability to repay. But, what can be the appropriate index of the ability to repay loans to the banks? Different authors have used different indices. For instance, net additional income, end of the period wealth, etc., have been used alternatively to indicate the ability of the borrowersto repay loans to the banks. Alok Nath Dhabal and Kalyanbrata Bhattacharyya (1989) have tried only to identify those borrowers as being able to repay loans who have reported a positive net additional income per year since the acceptance of loans. In their cases they have assumed that there has been a rise in the ability to repay loans to