

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Finance is the life blood of the economy of any country and the well managed financial institutions are the vehicles which drive the country to the economic development. A proper financial system plays a vital role in both developed and developing countries. A financial system encompasses the financial markets, institutions, laws, regulations and techniques through which financial assets are traded, interest rates are determined and financial services are produced and delivered around the world (Shrestha & Bhandari, 2004). It carries saving wealth, liquidity, credit payments, and risk and policy functions. By increasing mobilization of financial resources and sustaining high investment levels, an efficient financial system contributes to greater accumulation of productive capital. It is bridge between savers and users. In other words it collects the scattered and idle savings and mobilizes it into productive channels for the maximization of wealth.

In financial economics, a financial institution acts as an agent that provides financial service for its clients. Especially financial institutions are depository institution, loan providing institution, brokerage firms and insurance companies. They have been giving lots of financial services such as deposit collection, brokerage, consultancy, fund transfer, bank guarantee, letter of credit, loans, bill purchase, debenture issue, e-commerce and credit card and other allied services, etc. Financial institutions are the one which make the financial markets work. Without them, financial markets would not be able to move funds from people who save, to people who have productive investment opportunities. They, thus also have important effects on the performance of the economy as a whole.

Finance companies are those intermediaries which link the savers and users of capital. Basically, finance companies collect scattered savings of the individuals and mobilize

in the various productive sectors in the form of investment or lending such as hire purchase, purchase of land, housing loan, etc. In conceptual term, finance companies are non depository financial institutions and they are one of the large most diverse non depository institutions that have developed world wide. They are different from commercial banks and other financial institutions in terms of their orientation for management risk taking, lending policies and practices, size and potentiality, service delivery mechanism and efficiency. Besides equity their main sources of fund are time deposit collection and issuance of debentures. They are allowed to invest in securities and issue guarantee. They are also free to fix interest rates on deposits and loans (Gurung, 2005). But the spread on loan and deposit shouldn't exceed five percent. In the context of under developed countries like Nepal, it is a new type of institution. The primary goal of developing countries like Nepal is to achieve rapid economic growth and development to uplift the welfare of the citizen and the country. Finance companies are regarded as the catalyst of economic development of a country because they help in mobilization of the domestic resources, produce loan and cause financial innovations to facilitate the trade and transaction.

The finance company was developed largely to serve specialized loan markets. At the present time there are many types of specialized finance companies. The oldest and most familiar are the consumer finance companies that were formed to serve the demand for small personal loan (Smith, 1974). Therefore, finance companies are established to collect deposits and to provide loans and also mobilizing scattered saving through various schemes and deploys them in different sectors of the economy for the economic development of a country. Finance companies are now taken as the pillar of the economic development of a country.

Finance companies are the non-depository financial institutions and tend to meet the various kinds of consumer credit needs. In a situation when the existing financing institutions, especially commercial banks are unable to supply credit timely and carry capital market activities, finance companies have come timely to meet the individual credit needs, undertake merchant banking functions and other allied functions. The especial feature of finance companies is that they go to areas where commercial banks find difficult and not accessible to lend with risk. Most of the customers prefer finance companies with the notion that taking loan from finance companies although little bit costly is confident in getting the loan without passing too many procedures

often that exist in commercial banks. They stresses that the finance companies are the non-depository financial institution operating in the overall financial system of the economy. However, they serve as they act as the borrowing and lending financial institutions with additional financial risk taking management. Finance companies can be considered as quasi-banking institutions. They collect deposits, extend loans and advances to various sectors. The principal sources of fund of these companies beside equity are time deposit collections and issuance of debentures. The resources they collect are invested in hire purchase, housing finance, leasing finance, investment in government securities and bonds, issuing guarantee under the approval of concern authority. Therefore, finance companies can be considered as complementary to commercial banks to some extent. The growth of business activities necessitated the financial institutions because they are the institution that supply capital required for business and fund for other purpose.

Finance companies, licensed under the "Bank and Financial Institution Act 2063" are the third largest group of deposit taking financial institutions in Nepal. They are the creation of early 1990's. They were established as public limited companies mainly for providing loans to procure motor vehicles and other consumer durables on hire purchase loans, terms loans, land acquisition and building constructions and leasing plant and machinery. Finance companies lending operations have tended to complement the operations of the commercial banks, mainly in urban areas. But these companies are not allowed to accept demand and savings deposits from public and have thus concentrated in mobilizing funds through fixed deposits (NRB, 1996).

In our country Nepal, the history of finance is not so long. The first elected government in 1991 after the restoration of multiparty system adopted liberalized and market oriented economic policies followed by liberalization in the financial sectors. These measures included the deregulation of interest rate, free entry for banks and financial institutions, removal of statutory liquidity ratio (SLR), enactment of new Commercial Banks, Finance Company and Development Bank Acts so as to encourage private sector including foreign bank and financial institutions, divestment of non-governmental organizations (NGOs) for limited banking activities and freedom of portfolio management except in the priority sector lending. As a consequence of these measures, Nepalese financial sector has been widened and deepened with the establishment of more banks and financial institutions (FIs)

beginning from mid 1980s (Karki, 2057 B.S.). So, it can be traced back to 2042 B.S. (1985 A.D.) which is the year in which the Finance Company Act was incorporated. This Act plays a vital role for the establishment and smooth functioning of finance company in different parts of Nepal. Finance company is registered under the Finance Company Act and license issued for operation is granted by NRB.

The groundwork for establishing finance companies was initiated in 2042 B.S. with the enactment of finance company act 2042 B.S. Despite the provision of Act, private sectors were completely silent till 2049 B.S. After the 2049 B.S. some of the financial institutions were established under the Finance Company Act 2042 B.S. "Nepal Housing and Development Finance Company" was the first finance company which was established in 2049 B.S. Nepal Finance and Saving Company was the second finance company of the country which started its transaction since Poush 2049 B.S. Till date, there are already 70 finance companies in Nepal working under the roof of Nepal Rastra Bank whereas still more are on the pipelines (NRB Quarterly Economic Bulletin, volume-46, Mid-January 2012-Mid-July 2012). These finance companies have been succeeding in providing different types of facilities regarding financial activities. Most of the finance companies are concentrated in the Kathmandu valley. However, these days' banks and finance companies have been moving out of Kathmandu valley and opening its branches in different region and major parts of the country. So, the efforts have been done to decentralize the finance company in different parts of the country to reduce regional disparity. Thus, the finance companies are established to collect the scattered funds from different communities providing credit (loans) for the benefit of the people which aids for the development of the whole economy of the nation.

Introduction of Om Finance Limited (OFL)

Om Finance Limited (OFL) is the independent and autonomous finance company. It was registered in 2054 B.S. under the Company Act 2063 and Bank and Financial Institution Act 2063 by a group of promoters in Pokhara. In 29th, Bhadra, 2057 B.S. Nepal Rastra Bank provided the license of finance company, thus OFL started its operation from 1st, Ashwin 2057 B.S. It was finally inaugurated on 9th, Ashwin 2057 B.S.

The head office of this finance company limited is situated in Newroad, Pokhara. At the starting period, OFL had authorized capital of Rs.40 million, issued capital of Rs.20 million and paid up capital of Rs.20 million and now at present it has increased its authorized capital to Rs.840 million issued capital to Rs.246.75 million and paid up capital to Rs.271.425 million. It is one of the oldest finance company currently operating in Pokhara. The company has capital structure of 60% owned by promoters and 40% shares owned by the general public. Currently 80 employees are working in OFL along with eight branches at various parts of the country. Daily transactions are being carried on by the secured computerized system for the better quality service and result oriented managerial decisions. All the decisions of OFL are taken by the BOD under the rules and regulations formulated by NRB as well as Bank and Financial Institution Act 2063.

OFL is providing the cutting edge facilities to the cities like, Pokhara, Kathmandu, Lalitpur, Damuli and Lamjung valley as per market demands to fulfill the basic to every level of customer demand. The services provided by the finance company are trustworthy, protective and easy financial services. Famous and successful industrialists, businessmen, social workers and people having years of experience in financial sector of Pokhara are in the Board of Directors (BOD). OFL provides the flexible, easy and secure environment for the customers with the slogan, "Save Money for the Better Future".

The main activity of OFL is to collect the dispersed savings of the people, convert them into capital and lend them to the individuals or institutional borrowers. As a whole the main objectives of OFL is to uplift the national economy by considering financial and technical facility to general public. Similarly to provide economic, technical and financial suggestions to industrialist and businessmen, to develop and encourage manufacturing company, business house, agriculture and tourist sector, to develop saving habit in people and to provide trustworthy, secured and easy service are the other objectives of OFL. During the period of 12 years of its operation, it has accommodated a large number of clients and has been able to provide services to its customers.

The main goal of the company is to collect the scattered capital throughout the country and convert them into deposit and provide attractive interest and also invest

them into needy sectors to establish business, trades, housing, etc. OFL always protects the rights of the shareholders and help people to uplift their economic condition. Assessing the present and future needs of customers; setting business development goals and marketing plans to meet them and managing the various services and promoting them to achieve the plans, all in the context of a changing market environment has been set as the prime goal of OFL.

1.2 Focus of the Study

With an increasing demand for better life, the consumption of property has been on the uprising scale. This has not been backed up by adequate purchasing power, transforming it into effectual demand (Mukharjee & Hanif, 2005). This has created the market for hire purchase system. When a person is unable to acquire an asset against immediate cash payment, he/she may arrange with the vendor to stagger the payment. Financial intuitions plays role of facilitators between buyer and seller to enter into the hire purchase agreements. Hire purchase agreement makes it possible for businesspersons, professionals and other to take the advantage of assets all of which enable them to organize and operate their activities effectively. After the liberalization policy introduced in 1990, the financial sector especially the finance companies have contributed significantly to increase the hire purchase business in Nepal.

Finance companies do offer various kind of loan like housing loan, hire purchase loan, industrial loan, business loan, educational loan etc. to the customers. And among them hire purchase loan is one of the major and attractive investment schemes of finance companies. It is a system of buying things on credit whereby the seller of the goods is regarded as the dealer, the purchaser is regarded as the hirer and the finance company is the owner. The ownership of the goods bought on hire purchase does not pass to the hirer at the time of the hire purchase agreement or upon delivery of the goods rather the ownership of the goods remains in the owner until the hirer has fully paid the price agreed upon in the hire purchase agreement. So these days, it has been gaining a big crowd of all kinds of customers and there by contributing to the profit of company in large volume and helping to uplift the whole economic position of the country.

In this study, an attempt has been made to analyze the quantitative as well as qualitative information to identify and evaluate the current state affair of OFL in the field of hire purchase financing. Apart from it, its existing investment situation and related strategies are also carefully observed to depict whether the investment process in the field of hire purchase is going through OFL strategy or not. Therefore, whole energy and effort concentrate on hire purchase financing by OFL and its investment as well as recovery procedures.

1.3 Statement of the Problem

Nepalese economy is facing serious problem due to imbalance between resource mobilization and expenditure, saving and investment, import and export and lack of control over population growth. Various financial institutions have been established to assist the process of economic development of our country. The establishment of the financial institutions has contributed a lot in the development of Nepalese economy. Finance companies have been playing role by accepting deposits and providing various types of loans and investing in different sectors. There are many commercial banks, development banks, finance companies and many more co-operative societies in existence within Pokhara valley as well. Every organization cannot accomplish its goals and objectives without efficient and proper planning in investment in the tough competitive environment.

This study has discussed the basic issues on hire purchase financing especially concerned with OFL. The basic problem of this study is to determine and analyze the hire purchase financing of OFL for its sustainability and there by compete in the competitive business environment. Therefore, this study is attempted to deal with the following specific problems.

- What is the trend of hire purchase financing of OFL?
- What are the sub-sectoral investments under hire purchase loan of OFL?
- What is the default ratio on hire purchase loan?
- What is the relationship of hire purchase loan with total deposit?
- What is the relationship of hire purchase loan with total loan?
- What are the loan recovery procedures and policy of OFL?

1.4 Objectives of the Study

The general objective of the study is to analyze the current state of OFL in the field of hire purchase financing. However, the specific objectives of the study are given as under:

- To analyze the trend of hire purchase financing of OFL.
- To analyze the sub-sectoral investments under hire purchase loan of OFL.
- To examine the default ratio on hire purchase loan.
- To measure the relationship of hire purchase loan with total deposit.
- To measure the relationship of hire purchase loan with total loan.
- To analyze the loan recovery procedures and policy of OFL.

1.5 Significance of the Study

Research itself has its own importance because it aims to gain knowledge and to add the new literature in existing field. Basically, the proposed study has been important for the researcher to fulfill the academic requirement of Master's degree. Besides this, the study will bridge the gaps on the study of hire purchase financing and will help the particular company to draw some drawback in the case of hire purchase financing and there by develop some fine strategies in the case of hire purchase financing. This study will also be helpful to analyze the growth of hire purchase financing in Nepal and its contribution on Nepalese economy. Apart from this, the research will help the next potential researchers to research more on this topic that this study has not covered during the study period. Thus, this research study itself carries the significance and importance for researchers, students and other interested people for further study and research.

1.6 Limitations of the Study

This study is carried out as an academic requirement for degree of Master of Business Studies (MBS). So, the study may not be able to show the reliability and validity in every field. Basically, the study is limited within the following factors.

- The study is concerned only on the hire purchase financing of OFL, so it does not pay any attention towards the whole pattern of the finance company.

- The study covers only for five years period beginning from the fiscal year 2064/65 to 2068/69.
- The whole study is based on primary and secondary data i.e. questionnaire method, financial reports, annual reports and the information provided by the company and other related sources.
- Major portion of analysis and interpretation was based on available secondary data and primary information. Thus, accuracy, reliability and validity of the study depend upon the data provided by the finance company.

1.7 Organization of the Study

The whole study has been organized into five chapters each devoted to some aspects of the study of hire purchase financing of OFL. They are: introduction; review of literature; research methodology; presentation and analysis of data and summary, conclusions and recommendations.

The first chapter deals with introduction, which includes background of the study, focus of the study, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study. The second chapter deals with review of literature, which includes conceptual review, review of related studies and research gap. The third chapter summarizes the methodology adopted in the study. The fourth chapter puts forward the presentation and analysis of data. Finally, the last chapter presents the summary, conclusions and recommendations of the study. At the end, bibliography and appendices are also incorporated.

CHAPTER II

REVIEW OF LITERATURE

The purpose of literature review is to find out what research studies have been conducted in one's chosen field of the study and what remains to be done (Wolf & Pant, 2005). So, the review of literature is essential to depict what kind of gaps does exist in the literature. This chapter focuses on the conceptual review and research review on the subject matter of the study. The former section presents the theoretical aspects of the study and the latter one presents the review of related studies carried out in the study area.

2.1 Conceptual Review

A careful review of the literature enables a researcher to collect and synthesize prior studies related to the present studies (Sharma, 2007). Literature review supports to build an understanding of theoretical concepts and terminology which is useful in analyzing and interpreting result. In this section some relevant literature is reviewed to develop the foundation of research, considering and focusing on research topic.

2.1.1 Origin of Financial Institution in Nepal

All most all countries have the logical history of the development of financial structure has gone through different stages. In the context of Nepal, the first stage starts from rudimentary economy in which the commodity money such as gold and silver coins generally accepted as means of payment. The history of banking in Nepal may be described as component of gradual and orderly evolution in the financial and economic sphere of Nepalese life (Thapa & Neupane, 2068 BS). The existence of unorganized money market, landlords, rich merchants, shopkeepers and other individual money lender have acted as barrier to institutional credit. Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times.

During the reign of Gunakama Dev in about 8th century form of lending was started. He borrowed money to rebuild Kathmandu. It showed that there were also transactions of money in the form of lending. At the end of 11th century, Jayasthiti Malla, the ruler of Kantipur classified the people in difference castes based on their occupation. Among them, one of the category of the people, named "Tankadhari" worked as money lender and who invested their money on needy persons by charging some percentage of interest. Furthermore, during the reign of Mallas, it is believed that the lending business was done partially for financing the foreign trade with Tibet which became quite popular. But, some money lenders used to charge high interest rate and other extra charges on loan advances due to the absence of the regulation of interest rate.

In the 19th century, Ranodeep Singh, Prime Minister introduced number of economic and financial reforms. The establishment of "Tejarath Adda" in 1876 A.D. (B.S. 1933), fully subscribed by the government in Kathmandu valley was one of them. The main purpose of setting up of this Tejarath Adda was to provide credit facilities to the general public at a very concessional interest rate of 5 percent on securities i.e. gold, silver and other ornaments. Its objective was to provide credit or loans to the general public but it failed to accept deposit from them. Tejarath Adda did not collected deposits from the public but gave loans to employees and public against the bullion (Dahal & Dahal, 2002). The establishment of this financial institution marked the beginning of extending credit through any organized financial institution in Nepal. The Tejarath Adda disburses credit to the people especially on the collateral of gold and silver. This move was taken in order to reliance the people from the exorbitant rate of interest charged by traditional landlords and money lenders. Hence, the establishment of Tejarath Adda could be regarded as pioneer foundation of banking in Nepal.

2.1.2 Development of Banking System in Nepal

The history of modern financial system in Nepal was begun by the replacement of Tejarath Adda by Nepal Bank Limited (NBL), which was established in 1937 A.D. (B.S. 1994), as the first commercial bank of Nepal. NBL has a responsibility of attracting people towards banking sector from predominant money lenders and

expanding banking services. It paid more attention to profit generating business and preferred to open branches in urban areas as it is a commercial bank. One of the major responsibility of the government is to provide banking services everywhere in the country and also managing the financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was established on April 26, 1956 A.D. (B.S. 2013), as a central bank of Nepal under the NRB Act 1955 A.D. after the nineteen years since the establishment of the first commercial bank i.e. Nepal Bank Limited. Since then, it has been functioning as the government's bank and has contributed to the growth of financial sector (Dahal & Dahal, 2002). Its function was to supervise commercial banks and to guide the basic monetary policy of the nation. In 2013 B.S. Industrial Development Center was established and later it was converted into Nepal Industrial Development Corporation (NIDC) in 2016 B.S. As the monetary transaction got more and more complicated Rastriya Baniya Bank (RBB) was established as a fully government owned commercial bank in 1966 A.D. (B.S. 2022) under the RBB Act with a view to expand activities in the banking sector and to provide better banking facilities to the people. In the developing stage of financial institution in Nepal, the establishment of Agriculture Development Bank (ADB) was another significant achievement. It was established in 1968 A.D. (B.S. 2024) under the ADB Act 1967 A.D. to address the needs of agriculture sector of the country.

With the establishment of RBB and ADB, banking service spread to both the urban and rural areas. NRB also gave incentive to NBL to expand their branches to rural areas. Besides NBL, RBB and ADB, other commercial banks did not come into existence until 1984 A.D. The commercial banking act 1974 was amended in 1984 A.D. to increase the competition between commercial banks. As per the provision made in this act private sector (including foreign investment) was given freedom in opening commercial bank. Consequently, Nepal Arab Bank Limited (renamed as Nabil Bank Limited since 1st January 2002), the first joint venture commercial bank was established in 1984 A.D. (B.S. 2041). This is the first modern bank with latest banking technology. After then, lot of commercial banks has been opened in the country. Nepal Indosuez Bank Limited (renamed as Nepal Investment Bank Limited on 30th May 2002) and Nepal Grindlays Bank Limited (renamed as Standard Chartered Bank Limited on 13th July 2001) was established under joint venture in 1986 and 1987 A.D. respectively. Himalayan Bank Limited and Nepal SBI Bank

Limited in 1993 A.D. and Everest Bank Limited in 1994 A.D. were established. The process expanded in 1990 with more banking coming in the private sector. They are Nepal Bangladesh Bank Limited, Nepal Bank of Ceylon Limited (converted to Nepal Credit and Commercial Bank Limited in 10th September 2002), Lumbini Bank Limited, Kumari Bank Limited and Laxmi Bank Limited (Sharma, 2005). After restoration of democracy in 1990 A.D., NRB adopted a moral liberal policy on establishing the commercial bank, development bank, finance company and co-operatives.

2.1.3 Concept and Role of Finance Company

Finance company is an institution established under the prevailing laws with the objectives of the providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public. Finance company is the non-bank financial institution which borrows funds and those charged on loans. However, they act as the borrowing and lending financial institutions with additional financial risk taking management. They came into existence under the Finance Company Act, 2042 and now operating under Bank and Financial Institution Act, 2063. A finance company is an intermediary not a bank which may obtain fund from its own capital resources by accepting deposits or even by borrowing from other institutions which it lends for variety of purpose, especially to finance hire purchase contract but also leasing (Poudel, 1997). Finance company plays a vital role in developed and under developing country.

In the context of Nepal, finance companies as the new type of institutions which are serving the people of the country. Nepalese financial system can be looked into two broad categories: banking and non-banking institutions. All the commercial banks are considered as banking sectors and financial institutions other than banks are non-banking financial institutions. Focusing on the importance of the financial system, efficient financial systems contributes to greater accumulation of productive capital by increasing mobilization of financial resources and sustained high investment levels. It is bridge between the savers and users. In other words, it collects the scattered saving and mobilizes them into productive channels in order to maximize their wealth. Finance companies are the mediators which help to collect small savings and mobilize savings in various tasks like hire purchase, purchase of land, housing

loan etc between the person who has got saving and investors and big finance company and also the persons of organization which need the loan of small amount. Therefore, finance companies can be considered as complementary to commercial banks to some extent. The growth of business activities necessitated the financial institutions because they are the institution that supply capital required for business and fund for other purposes. These financial institutions have been set up with a motive to collect the scattered deposits from all over and provide these deposits in the form of short term and long term loan. Categorized as "C" level financial institutions by Nepal Rastra Bank, these institutions perform in accordance to the directives laid by NRB.

A finance company can conduct the following functions.

-) It collects small saving of the public
-) It provides the loan to a person or organization for the purchase of machines and equipments, vehicles etc.
-) It provides the loan for the construction of building, warehouse etc.
-) It acts as an agent to sell the shares and debentures.
-) It provides commercial-banking facilities on the permission of central bank.
-) It provides hire purchase and installment facilities for the purchase of machinery, vehicles, equipments etc.

2.1.4 Growth of Finance Companies in Nepal

Finance companies occupy the crux role in development of nation. These companies not only mobilize savings but also promote investment in different enterprises of national economy that spontaneously assist in alleviating poverty, uplifting of employment opportunities and thereby developing the society and country as whole. Thus, the growth of aforesaid institution is deemed as one of crucial yardstick for measuring the level of economic development of a country.

The history of the growth of the development of finance company in Nepal is not more. Economic liberalization policy of the government has encouraged the establishment and growth of finance companies in Nepal with in a short span of time. So, establishment of finance companies are the major outcomes of the economic liberalization. The groundwork for establishing finance companies was initiated in

2042 B.S. with the enactment of Finance Company Act 2042 B.S. Despite the provisions of Act, private sectors were completely silent till 2049. On Shrawan 2049 B.S., "Nepal Housing and Development Finance Company" was established promoted by RBB, ADB and Nepal Arab Bank Limited with major shares of public sectors. In the same year, Nepal Finance and Saving Company Limited was established from the private sector. The number of financial institutions has drastically grown up in a short time span. The mushrooming of finance companies in Nepal is the result of financial liberalization program of the government. As per the banking and financial statistics published by NRB on mid-July 2012, finance companies have been growing rapidly. The total number of finance companies which stood at 47 in mid-July 2000 reached to 70 in mid-July 2012 A.D. (NRB, 2012). The number of insurance companies, co-operatives and non-government organization (NGOs) authorized for limited banking activities are also growing up. The reason for their speedy growth is higher interest rate in on deposits, low administration cost, fast services, fast decision, less liquidity and high demand for consumer credit. To improve the financial legislative framework, some new acts, namely Bank and Financial Institution Act, 2006; Nepal Rastra Bank (First Amendment) Act, 2006; Insolvency Act, 2006; Secured Transaction Act, 2006; Company Act, 2006 have been enacted. Money Laundering Control and Deposit and Credit Guarantee Acts are expected to be soon materialized, all with the goal of strengthening the financial sector through building on its healthy development and improved stability.

2.1.5 Bank and Financial Institution Act, 2063

Bank and financial activities are governed by rules and regulations and which are reviewed from time to time reflect the changing economic environment. Previously, Financial Act 2042 used to govern finance companies in Nepal due to the absence of parliament, Bank and Financial Institutions Ordinance (BAFIO) came into existence in February 4, 2004. BAFIO governs all types of financial institutions. The ordinance repeals and replaces all existing Acts relating to Commercial Banks, Nepal Industrial Development Bank, other development banks and finance companies and brings all such institution under one single act which is known as Umbrellas Act. As per Umbrella Act, banks and financial institutions are categorized in to the class A, B, C, and D on the basis of minimum paid up capital. Accordingly, commercial banks are in

'A' class and they are labeled as banks. Similarly development banks, finance companies, and micro-credit development banks are categorized into 'B', 'C' and 'D' class respectively and they are called financial institutions (BAFIO, 2004). By mid-July 2012, NRB licensed bank and non-bank financial institutions are totaled 291. Out of them, 32 are commercial banks, 88 development banks, 70 finance companies, 24 micro-credit development banks, 16 saving and credit co-operatives, 36 NGO's and 25 insurance companies (NRB, 2012).

The primary function of finance companies is to make loan to both individuals and businesses. These companies are popular among low-income and medium class people for financing hire purchases, vehicles, machinery, tools, equipments, durable household goods etc. They can also perform merchant banking activities with prior approval of NRB. They are willing to lend to riskier borrowers than commercial banks. Further as per the NRB unified directives for Banks and Non-Bank FIs issue number E.Pra.Ni.No.8/060/061 (Ashar 2062 B.S.), there is no any restriction for finance companies to invest in government securities and Nepal Rastra Bank bonds. But, they have to perform their activities as prescribed by the NRB directives.

The minimum paid up capital of the finance companies is fixed at Rs.2.5 million but if the companies are interested in operating more than one activity or want to expand their branches, the minimum paid up capital is fixed at Rs.10 million. However, the paid up capital of Rs.30 million is fixed for the operation of leasing finance companies.

For the proper and smooth operation of bank and financial institution, an Umbrella Act named as Bank and Financial Institution Act, 2063 has recently has been enacted, which is effective since 16th of Shrawan, 2063.

Subject to the Act, Bank and Financial Institutions Act, 2063, Class 'C' licensed institutions (Finance Companies) are allowed to conduct the following types of financial transactions:

- (a) Accept deposits with or without interest with or without interest and refund such deposits, subject to the limit prescribed by the NRB.
- (b) Supply credits other than hypothecation credit as prescribed.
- (c) Supply credits for business relating to hire purchase, leasing and housing, as well as for service enterprises.

- (d) Engage in merchant banking business.
- (e) Write off credit subject to the bye-rules framed by the Board.
- (f) Supply credit on the basis of co-financing by joining hands with other licensed institutions according to the agreement concluded for the purpose so as to divide the collateral.
- (g) Supply credit against the guarantee provided by any bank or financial institution.
- (h) Obtain credits by pledging its movable or immovable assets as collateral.
- (i) Supply a fresh credit in a lump sum or in installment against the security of the same movable or immovable assets which have already been pledged with it or with any other licensed institution, to the extent covered by the total value of such security.
- (j) Properly manage, sell or lease out its assets.
- (k) Issue, accept, pay, discount or deal in bills of exchange, promissory notes, cheques, drafts or other financial instruments.
- (l) Deal in Indian currency.
- (m) Supply credits not exceeding the amount prescribed by the Rastra Bank to ensure the economic upliftment of the destitute class, low-income families, and victims of natural calamities and inhabitants of any area of the country with the provision of individual or collective guarantee.
- (n) Exchange with the Nepal Rastra Bank or any other licensed institution particulars, information or notices regarding debtors or customers who have obtained credits or any other facility from it or any other licensed institution.
- (o) Supply installment or hire purchase credit to any individual, firm, company or institution for vehicles, machinery, tools, equipment, durable household goods or similar other movable property.
- (p) Supply credit to any individual, firm, company or institution for the purchase or construction of residential houses or go downs, or for the purchase of lands for the construction of such residential houses of go downs.
- (q) Supply credit (leasing-finance) to any individual, firm, company or institution for taking up vehicles, machinery, tools, equipment, durable

household goods or similar other movable property on lease or provide such movable property on lease.

- (r) Prescribe conditions according to need in order to protect its interests while supplying credit to any individual or institution or carrying out any transaction with him/her/it.
- (s) Operate projects such as those relating to purchase of lands and construction of buildings for land development and residential purposes, and sell or manage such lands and buildings or make arrangements for doing so.
- (t) Perform such other functions as are prescribed by the Nepal Rastra Bank.

2.1.6 Financial Products and Services

Finance companies can accept time deposit of the maturity of minimum three months to maximum six years. Generally, the following types of financial products are provided by finance companies.

Deposit: Deposit means amounts deposited in current, savings or fixed accounts of a bank or financial institution, and this term also includes such amounts as a bank or financial institution accepts through such various financial instruments as prescribed by Nepal Rastra Bank. Finance companies provide different types of deposits which are as follow:

-) **Saving deposit:** Finance companies accept saving deposit from individuals and organizations. The main purpose of saving deposit is to encourage the habit of saving among the common people and institutions. Depositors can deposit any amount in their accounts in anytime. But they can withdraw their money up to a limited amount in certain period. Prior information is required incase of withdrawal beyond the restricted limit. Finance companies are allowed to accept saving deposits not exceeding 2.5 times of their core capital. They provide interest on daily balance basis on saving deposit. Depositors can deposit any amount in their accounts in any time while finance company cannot lend/invest the entire fund as and when desired in interest earning assets in this type of deposit. The company from time to time under the directives issued by NRB determines the interest rates.

) **Fixed deposit:** Fixed deposits are also known as time deposits or term deposits. They carry a fixed maturity, a penalty is charged for early withdrawal. Savers that do not need money for a stipulated period from three months to longer periods ranging up to six years are encouraged to keep it in fixed deposits. This type of deposit offers higher interest rate than saving account. Longer the maturity period, higher will be the rate of interest. However, the depositor can take loan against the deposit in case the cash is needed.

) **Recurring deposit:** Various type of recurring deposit schemes are introduced by finance companies. This scheme was developed to encourage the economical among the people of fixed regular earnings. In this scheme, the depositor is required to deposit the fixed amount in each installment and repaid the total amount with interest at maturity. These kinds of deposit don't give the depositors option of liquidation before maturity. The concept of recurring deposit was developed to encourage being economical among the people of fixed regular earnings.

Loan: Finance companies do provided loan and advances to individuals, firms, companies and institutions. Loan means a direct or indirect commitment to supply funds, and in return therefore, the right to recover the investment funds, and payment of interest or other charges on such credit, refine issued against the security of a credit or investment, restructuring and renewal of a credit, security issued for the repayment of such credit and other commitment made for such repayment, and this term also includes any credit in whatever form. Finance companies provide different types of loans which are as follow:

) **Term loan:** Under this type of loan, finance companies provide loan for the expansion of trade and industry so called business and industrial loan. In addition further education, health, tourism, agriculture, water resources, irrigation and personal loan.

) **Hire purchase loan:** Under this type of loan, finance companies provide loan for the purchase of vehicle, machines, equipments and tools, durable households' goods so called home appliances and other movable property. The loan is provided in installment basis and the interest rate depends on the

situation like life of machines, model of machine for instant. The repayment of this type of loan is in installment basis along with interest.

-) **Housing loan:** Under this, finance companies do provide loan for purchasing land, construction of house, repair and maintenance of house for individuals and warehouse. The rate of interest fluctuates depending upon the volume of amount carried out and repayment is done in installment however the grace period can be given according to the situation that could be figure out.
-) **Working capital loan:** Under this type of loan, finance companies release loan to the business people for the expansion of trade and industry. Loan is provided to meet the current liabilities during the particular fiscal year with the provision that the loan will be cleared with in a year. However the schedule for payment of installment will not be in printed form.
-) **Loan against fixed deposit:** Under this type of loan, person or organization that has certain amount on fixed deposit in the company will get loan. Only the fixed depositors can get the loan up to 90 percent of fixed deposit amount. The company charges plus two percent interest in this type of loan.

According to the NRB unified directives for bank and non-bank financial institutions issue number E.Pra.Ni.No. 15/061/062 (Ashar 2062 B.S.), finance companies are free to fix interest rates on both the deposits they take and the loans they provide. So, the rate of interest on both the deposits and loans will vary from one finance company to another. Other financial services provided by finance companies are issue of shares and underwriting, act as financial guarantee, collect share application, purchase and sale of government bonds.

2.1.7 Concept of Hire Purchase

Generally, the investment refers employing of money to generate more money in future. It is a kind of sacrifice of current opportunity cost where the return is the prime. Every investment entails some degree of risk, it requires at present certain sacrifice for a future uncertain benefits. Thus, investment is the sacrifice of existing resources to generate return in future involving risk. Hire purchase is one of the sectors for investment, where an investment is made on vehicles, plants and equipments and home appliances for instance.

Hire purchase is the legal term for a contract developed in the United Kingdom, and now found in India, Australia, New Zealand, and other states which have adopted the English law concept. (In North America, where the word hire most commonly refers to employment, the comparable system is called closed-end leasing.) In cases where a buyer cannot afford to pay the asked price for an item of property as a lump sum but can afford to pay a percentage as deposit, a hire-purchase contract allows the buyer to hire the goods for a monthly rent. When a sum equal to the original full price plus interest has been paid in equal installments, the buyer may then exercise an option to buy the goods at a predetermined price (usually a nominal sum) or return the goods to the owner. In the United States, a hire purchase is termed an installment plan; other analogous practices are described as closed-end leasing or rent to own.

Hire purchase is an extended purchase price payment price payment scheme under which the hirer who cannot or does not want to immediately pay for the full price of the goods to the vendor of the goods but desires the immediate use of the good, pays a small part of the (commonly known as a deposit) first and defer the payment of the remaining balance of the price over a pre-determined period (commonly known as the financing period. Under the hire purchase, the hirer will make regular periodic installments during the financing period. Until the final installment is received, the financier retains the title to the goods.

Pickles and Lafferty (1974) has defined that hire purchase is the system under which property or a chattel is acquired by payments made in installments, during the period of which the title in the property remains with the hire vendor. The payments prior to the final one are regarded as being purely in respect of hire, and the title in the property does not pass to the hire purchaser until such final payment or some other consideration provided for in the contract has been fulfilled. Likewise, Jain and Narang (1983) has defined as under hire purchase system, the buyer acquires the possession of the goods immediately and agrees to pay the total hire purchase price in installments, each installment when ownership of goods passes from the seller to the buyer. In case the buyer makes any default in the payments of any installment the seller will have a right to repossess these goods from the buyer and forfeit the amount already received treating it as a hire charge. But if the buyer is paying all the installments on due dates, the seller has no right to repossess these goods from the buyers.

Maheshwari (1984) has defined hire purchase a contract where goods are purchased or sold with the stipulations that the delivery of the goods will be given by the owner of the goods to the hire purchaser; the payment of the price for the goods will be made in installments; ownership of the goods passes to the hire purchaser only on payments of all the installments. Shukla, Grewal and Gupta (1999) defined hire purchase as a transaction where goods are purchased and sold with the stipulations that payments will be made by installment; each installment will be treated as hire so that if default is made in the payment of even the last installment, the seller will be entitled to take away the goods without compensating the hire purchaser in any way; and in case all installments are paid, the goods will be treated as sold and property will pass to the purchaser. The property in the goods does not pass to the purchaser or hirer till the final installment is paid. Similarly, Agrawal (1988) has defined hire purchase as a system of purchase under which the purchase price is paid in a number of installments. As soon as the contract is entered into, which, usually coincides with the payments of the first installment, the hire purchase acquires possession (not the ownership) of the goods and therewith the right of use them also. In case the hire purchaser fails to pay any particular installment, the vendor (or lender) can recover possession of the goods, and the installments already paid become forfeited.

Hire purchase differs from a mortgage and similar forms of lien-secured credit in that the so called buyer who has the use of the goods is not the legal owner during the term of the hire-purchase contract. If the buyer defaults in paying the installments, the owner may repossess the goods, a vendor protection not available with unsecured-consumer-credit systems. Hire purchase is frequently advantageous to consumers because it spreads the cost of expensive items over an extended time period. Business consumers may find the different balance sheet and taxation treatment of hire-purchased goods beneficial to their taxable income. The need for Hire purchase is reduced when consumers have collateral or other forms of credit readily available. Hire purchase is a form of credit. It is a way to buy property when buyers can not afford to pay the full amount straight away. In this system, a customer agrees to buy property from a manufacturer or retailer and to pay price in a number of installments. Three parties-the manufacturer or retailer or vendor; the hiree and the hirer-involve in the hire purchase agreement. The hirer is a buyer or customer who buys property. The manufacturer sells property to the hiree who sells it to the hirer in exchange for the

payment to be made over a specified period of time (Pandey, 2004). In our study, finance company is the hiree.

A hire purchase installment system is an agreement drawn up, signed by the hirer, lending institution. If a retailer is involved, it also signs the agreement and supplies the agreement paper in question. It is an agreement whereby a buyer hires property for a period by paying installments and can own the property after the payment of all installments. Manufacturers or retailers often have an agreement with a finance company to promote hire purchase finance. In such a case, a hirer makes the payments to the finance company not to the manufacturer or retailer. The name of the finance company will be on hire purchase agreement.

As soon as the contract is signed, the hirer acquires possession of the property and therewith the right to use the property over an agreed period. However, the ownership of the property remains with the finance company until the hirer pays all installments within the specified period. In case if he fails to pay any of the installments, even the last one, the vendor or finance company takes back the hired property without compensating the hirer (Mukharjee & Hanif, 1998) and the finance company may terminate the hire purchase agreement if the specified or agreed amount doesn't come in specified time and if three number of installments get due by the hirer.

In Nepal, a hirer wishing to buy a property requires to contact the retailer for the quotation of the property intended to hire. Then, hirer contacts the financial institution on his/her convenience for hire purchase financing. After receiving the quotation, finance company evaluates the property and fixes the certain percentage of the value of the property for hire purchase financing and signs the hire purchase agreement with hirer, and finance company instructs the retailer to sell the property especially vehicle to the hirer. The hirer needs to make down payment. The ownership of vehicle is transferred to finance company after down payment and hirer acquires the ownership of the property only after payment of all installments.

2.1.8 Hire Purchase Agreement

Under hire purchase agreement, the buyer acquires the property by promising to pay necessary installment payment of monthly, quarterly, half yearly, yearly or any other period. The period of payment has to be fixed while signing the hire sell agreement.

Though, the buyer acquires the asset under hire purchase system after signing the agreement, the title of ownership remains with vendor until the buyer squares up his entire liability. When the buyer pays the final installment and any other obligation according to hire purchase agreement only then the title of ownership of the goods would be transferred to hirer. If the hirer makes default in the payment of any installment, the hire-vendor has the right to re-possess the goods. When the vendor re-possesses the goods due to the default of payment of installment, in this case the amount already paid so far by the hirer will be forfeited. The hire purchase price of goods is normally higher than the cash down price of article because it includes interest as well as cash price. Under hire purchase system, the vendor is responsible to repair the goods which are in the possession of buyer provided that the buyer takes the outmost proper care of the goods acquired. The risk is also borne by the vendor until the payment of last installment. The buyer has the right to return the goods to the vendor, if they are not according to the terms and condition of hire purchase agreement (Dangol et al., 2010).

Tulsian (2004) has explained about hire purchase agreement and its conditions. According to him hire purchase agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance and includes the agreement under which: possession of goods is delivered by the owner thereof to a person on condition, that such person pays the agrees amount in periodical installment; the property in the goods (i.e., the ownership of goods) is to pass to such a person on the payment of the last installment; and such a person has a right to terminate the agreement at any time before the property so passes.

With a hire purchase agreement, after all the payments have been made, the business customer becomes the owner of the equipment. This ownership transfer either automatically or on payment of an option to purchase fee. For tax purposes, from the beginning of the agreement the business customer is treated as the owner of the equipment and so can claim allowances. Capital allowances can be a significant tax incentive for businesses to invest in new plant and machinery or to upgrade information system.

From a consumer's perspective hire purchase agreements can be seen as just another form of finance or installment purchase contract. Like installment payment contracts,

such as lay-by sales, they involve the purchase of goods via the payment of installments with legal title being retained by the vendor until receipt of the final installment.

However, hire purchase agreements are different from lay-by sales in two critical respects:

- Possession of the goods is not retained by the vendor until the hire purchase agreement is concluded. Instead, the purchaser has the right to use the goods throughout the period of the hire purchase contract. In this respect hire purchase agreements are more like leases than lay-by sales.
- They involve a financier. The financier purchases the goods from the original vendor immediately prior to, or at, the outset of the hire purchase contract. The purchaser then purchases the goods by paying installments to the financier rather than the original vendor.

These differences mean that payments made under a hire purchase agreement can be conceptually analyzed in different ways.

First, the payments could be regarded as simple installment purchase payments. These will comprise a capital component or a capital and interest component. The capital component relates to the purchase of the goods. Where it includes an interest component this is intended to compensate the vendor for selling the goods through hire purchase rather than a simple sale. This analysis emphasizes the similarities between lay-by sales and hire purchase sales.

2.1.9 Commercial Hire Purchase (CHP)

The commercial hire purchase agreement is simply a contract where the financier (the owner) allows the hirer the right to possess and use a car or other vehicle in return for regular payments. A balloon payment (a final payment made at the end of the term—ideally this payment should be no more than the estimated value of the car at the time) is optional with a hire purchase agreement. When the final payment of the commercial hire purchase is made, the title to the goods is transferred to the hirer. With a CHP there may be significant tax advantages as the hirer is able to claim the interest repayment as well as the depreciation of the asset whereas with a standard lease the

actual repayments are the tax-deductible part of the equation. The hirer also has the option to purchase the vehicle prior to the end of the term of the CHP.

Hire purchase is a wise choice if hirer wants to own a vehicle through regular payments without tying-up all of hirer's capital at once. The vehicle appears as an asset on hirer balance-sheet from the day one. After the final payments, the vehicle becomes the hirer's. However the hirer can choose a fixed or variable interest rate or a final balloon payment. Each option offers benefits depending on hirer's requirements.

) **Hire purchase fixed rate**

Hire purchase fixed rate is a good option if you need to work as accurate budget during a period in which interest may fluctuate, the payment interest rate is fixed at the outset, as in the term over which payments are made. The timing of the payment can be tailored to suit the cash flow of your business.

) **Balloon payment**

Hire purchase with balloon payment will appear if you want low monthly payments and the flexibility to pay a lump sum (balloon) as a final payment. At the end of the agreement, the hirer has two choices. The hirer can make a final balloon payment and keep the commercial vehicle or hirer can re-finance the balloon. The choice is entirely up to the hirer.

) **Hire purchase variable rate**

Hire purchase variable rate is a smart choice if the hirer believes interest rates will fall and if that happens, a viable rate scheme will save the hirer money. There are no additional charges should you want to pay off a lump sum or settle the agreement early. Interest is calculated daily, but the hirer can pay it monthly or quarterly.

2.1.10 Installment Purchase System

An Installment purchase system is just like a hire purchase and credit purchase system of selling and buying goods. Like hire purchase, in installment system an agreement is made between buyer and seller to purchase and sell of goods. The buyer makes certain down payment at the time of signing agreement and balance is paying in installment over a period of time.

An installment system is a credit sale in which payments are made in installments over a period of time. In this system, the buyer gets the possession as well as ownership of the goods right at the time of signing the agreement. During the course of paying the installments, if the buyer makes default in paying the installment, the vendor cannot responses the goods. In that case, the vendor can sue the buyer for recovery of dues. Like in hire purchase, even the paid installment also cannot be forfeited in case of default in paying installment (Dangol et al., 2010).

Maheshwari (1994) has defined that in installment purchase system which is also termed as deferred installment system; there is an outright sale of goods with the buyer having the facility to pay the purchase price in certain number of agreed installments. Thus, the installment price agreed both the each price as well as the interest for delayed payment. The possession and legal ownership of the goods passes to the buyer immediately. The installment purchase system of selling goods can be employed for similar goods which are similar for sale under hire purchase system. The seller has also to be cautions in the selection of the customers. Similarly, Tulsian (2004) has defined installment purchase agreement as an agreement of sale under which the property in the goods (i.e. ownership of goods) is to pass to the buyer immediately on the signing of the contract of sale and buyer has no right to terminate the contract unless the seller defaults. The seller has right only to sue for price if the buyer fails to pay any installment. He cannot take back the goods from the purchaser. The buyer may dispose off the goods and give goods title to the bona fide purchaser.

Thus, it can be said that installment purchase system is a kind of credit sale where installment are entertained over the period and default in such payment cannot responses the goods and in that cases, the vendor can only sue the buyer for the recovery of amount due.

2.1.11 Lease Financing

Lease financing denotes procurement of assets through lease. The subject of leasing falls in the category of finance. Leasing has grown as a big industry in the USA and UK and spread to other countries during the present century. In India, the concept was pioneered in 1973 when the first Leasing Company was set up in Madras and the eighties have seen a rapid growth of this business. Lease as a concept involves a

contract whereby the ownership, financing and risk taking of equipment or assets are separated and shared by two or more parties. Thus, the lessor may finance and lessee may accept the risk through the use of it while a third party may own it. Alternatively, the lessor may finance and own it while the lessee enjoys the use of it and bears the risk. There are various combinations in which the above characteristics are shared by the lessor and lessee.

A lease transaction is a commercial arrangement whereby an equipment owner or manufacturer conveys to the equipment user the right to use the equipment in return for a rental. In other words, a lease may be defined as a contractual agreement/transaction in which a party owning an asset/equipment (lessor) provides the asset for use to another/transfers the right to use the equipment to the user (lessee) over a certain/for an agreed period of time for consideration in the form of/in return for period payment (rental) with or without a further payment (premium). At the end of the period of contract (lease period), the asset/equipment reverts back to the lessor unless there is a provision for the renewal of the contract (Khan & Jain, 2002). The important feature of a lease contract is separation of the ownership of the asset from its usage.

Pandey (1995) has defined lease is a contract between a lessor, the owner of the asset, and a lessee, the user of the asset. Under the contract, the owner gives the right to use the asset to use the asset to the user over an agreed period of time for a consideration called the lease rental. The lessee pay the rental to the lessor as regular fixed payments over a period of time at the beginning or at the end of a month, quarter, half-year, or year. Similarly, Bhattraï (2008) has defined lease as a contract between two parties where on party, the owner of an asset, gives he exclusive right to another party, the user of the asset to use the asset in return for the payment of rent. The payments of lease rents are made either at the beginning (in advance) or at the end (arrears) of the period. Further more, the lease rents are either equal or unequal during the periods.

Leasing is an important source of equipment financing. For some equipment, the financing is intermediate-term in nature. However, the really big financing of aircraft and power plants are long-term. As a lease contract embraces an interest-rate cost to the lessee and an interest-rate return to the lessor, effectively it is a capital market

instrument (Van Horne, 2000). Leasing can offer the hirer the most cost effective way to acquire an asset. Financing costs are calculated on the price of the equipment, exclusive of Value Added Tax (VAT). This dramatically reduces the cost of the monthly rentals. Rentals can be monthly or quarterly, tailored to the hirer cash flow and can be offset against the taxable profits if the hirer is VAT registered. However, the buyer pays a fully tax deductible fixed monthly rental-there is no need to segregate monthly installment and interest and there is no security deposit. Lease purchase package provides the same tax and financial benefits as hire purchase but payment can be structured to suit hirer business cash flow.

2.1.12 Risk Insurance

The most common types of insurance required on a hire purchase contract are "risk insurance" and payment insurance. Commonly a hire purchase contract will require customers to insure goods for theft, loss, or damage as the goods remain the finance company's property until all payments are made.

Often called consumer credit insurance, consumer debt insurance, or payment protection plan, it is an insurance policy that covers the customer's hire purchase payments for a time if they lose their income through illness, accident, death, or redundancy. If the customer can not make their hire purchase payments for one of these reasons, the payments will be made by the insurance company. The terms and conditions of such a contract will vary depending on the insurance company.

2.1.13 Laws Applying to Hire Purchase

Hire purchase sales must comply with the Hire Purchase Act. Where a customer is paying more than the cash price of goods (eg. with interest added), the sale must also comply with the Credit Contracts Act.

Where the customer fails to pay their installments or puts the goods at risk, the finance company or you as the seller must comply with the Credit (Repossession) Act if the goods are "consumer goods" (if the goods are not "consumer goods" then the Personal Property Securities Act will apply). Sale of goods on hire purchase is also subject to the Fair Trading Act and the Consumer Guarantees Act. All these Acts can be accessed at the government legislation.

➤ **Hire Purchase Act 1971**

The Act sets out:

- the requirements to provide a hire purchase contract in writing
- what particular format for that contract
- rules for assigning a hire purchase
- rules for early settlement of the contract
- rules for variations to the contract (Gurung, 2011).

➤ **Hire Purchase Act 1972**

Hire Purchase Act, 1972 states that every hire purchase contract shall contain the following particulars:

- the hire purchase price of the goods to which the agreement relates;
- the cash price of the goods, that is to say, the price at which the goods may be purchased by the hirer for cash;
- the date on which the agreement shall be deemed to have commenced;
- the number of installments by which the hire purchase price is to be paid, the amount of cash of those installments, and the date or the mode of determining the date, upon which it is payable, and the person to whom and the place where it is payable; and
- the goods to which the agreement relates, in the manner sufficient to identify them (Tulsian, 2004).

➤ **Credit Contracts Act 1981**

The Act covers loan and hire purchase contracts which have a value not exceeding \$250,000. If the customer has several loans with the same finance company the \$250,000 rule will apply to the total of those loans. There must be a charge for providing the credit (e.g., the amount repaid by the customer must exceed the cash price of the goods).

The Act sets out information that must be in the contract (the rules about disclosure).

- the cash price of the goods
- the amount of credit
- the total cost of credit
- the finance rate

- name and address of the creditor
- the rate, frequency, and number of installments, when payment is due, and whom payment is made to
- the right to cancel within three working days, and
- all other terms of contract (op. cit.).

2.2 Review of Related Studies

It is found that different studies have been carried out regarding the consumer lending of finance companies. Prior to this study, some researchers had conducted studies about many aspects of finance companies. Attempts have been made to review the different published and unpublished reports articles, research papers and Master's dissertation carried out by different scholars to grasp the required knowledge from the related studies, available in the libraries and internet.

2.2.1 Review of Articles

Different research works were carried out by different scholar within the different parts of the country. Those studies and issues are reviewed in this section.

Shrestha (1998) conducted a study on "Lending Operation of Commercial Banks of Nepal and its Impact on GDP" with the objective to make analysis of contributing of commercial banks lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology she has considered GDP as the dependent variable and various sectors of lending viz. agriculture, industrial, commercial services and general and social sectors as the independent variables. A multiple regression techniques have been applied to analyze the contribution. A multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. She has accepted that there has positive impact by lending of commercial banks in various sectors of economy, except services sector investment.

Shah (2003) the article published in Nepali times outlined "The Dynamics of Consumer Banking has crossed the Threshold". He has clarified that lenders in Nepal are turning towards consumer banking. The prevailing stagnation investment and competition has forced most banks to look at individuals and tailor products for their

needs. He has introduced the concept of consumer banking as, according to him, prior main utility of bank was safe-keeping the savings of individual depositors. But today a bank means much more than that. It is now looked upon as a provider of financial solutions for individuals, which provides products and services that compliment their lifestyle. And that is what consumer banking is all about. He had further concluded that historically, banks used to concentrate their lending activities to companies and institution, but the stagnation of economy and growth of competition has forced banks to look at alternative avenues. Their first foray into consumer lending was with their auto loan. Their main objectives is not just to provide a loan to buy a car, but to provide a solution to put the customer in the driving seat as it were.

Gurung (2005) in his article entitled "Hire Purchase Financing: A Case Study of Finance Companies of Pokhara" published on the journal of Nepalese Business Studies is one of the research of this study. He tried to find out the current performance of finance companies in Pokhara on the field of hire purchase financing. He has taken five finance companies of Pokhara as a sample for his study; they are Annapurna Finance Company Limited (AFCL), Pokhara Finance Limited (POFIL), Om Finance Limited (OFL), Fewa Finance Limited (FFL), and Alpice Everest Finance Company Limited (AEFCL). He has used different financial and statistical tools for data analysis and concluded that hire purchase financing is one of the major and attractive investment schemes of finance companies in Pokhara in particular and country overall. The credit deposit ratios are very satisfactory. The relationship between total deposit collection and total loan to hire purchase loan is highly significant. The business person and professional users are predominantly rushing in utilizing the hire purchase financing due to the easy payment terms. The IRR on hire purchase loan is normally higher than their explicit rate of interest and service charge. Except in few cases there are defaulters in all finance companies in hire purchase financing is satisfactory.

KALASH a monthly news letter of Annapurna Finance Company Limited (Shrawan, 2064) revealed that hire purchase loan has been growing up rapidly. It brought out the hire purchase loan of AFCL as compare to fiscal year 2062/63 has increased by 65%. In the fiscal year 2062/63 the hire purchased loan was amounted Rs.292.8 million and this fiscal year 2063/64 hire purchase loan is amounted Rs.483.1 million. This shows that the tremendous increment is on the run in the case of hire purchase.

2.2.2 Review of Dissertations

Prior this large volume of thesis works has been carried out by various scholars covering the various aspects of finance companies. Here, effort has been made to review some related dissertations done by different scholars.

Ranabhat (1997) has conducted a research on "An Analysis of Financial Performance of Finance Companies in Context of Nepal" with the objective to analyze financial performance of finance companies in Nepal. The study has covered the five years of period from 1991 A.D. to 1996 A.D. He has used different analytical tools like percentage change and comparative study index. He had found that the performance of finance companies in regard of hire purchase loan, housing loan was not satisfactory but in regard to term loan, lease financing, government securities are satisfactory. Further, he concluded that the financial companies had not been managed in true professionals approach.

Sapkota (1999) carried out the research study entitled "A Study on Investment Portfolio of Annapurna Finance Company Limited" with the objectives to analyze the investment portfolio and to find out the liquidity and profitability position of the company. The study has covered the five fiscal years from 1993/94 to 1997/98. He has employed various financial indicators like current ratio, return on capital, return on net worth, return on total assets and earning per share to measure the financial position of the company. The scholar concluded that the investment of AFCL has been managed efficiently to maximize the return there from. But the company has not sufficiently diversified its investment to reduce its portfolio risk. However, the company has maintained a balance ratio among the deposit and investment. Moreover, allocation of loan and advance by the company does not seem as meaningful as the productive sector has not got its due share in the loan portfolio. As compare to housing loan, term loan and fixed deposit loan have got quite negligible share percentage in the loan disbursement of the company. But, hire purchase loan has got the maximum share percentage in loan disbursement of the company.

Gurung (2005) in his research, "Lending services provided by Finance Companies: A Comparative Study of Annapurna Finance and Pokhara Finance" has made remarkable efforts with the objective of analysis and comparing the performance of

Annapurna Finance Company Limited and Pokhara Finance Limited. He used five years data i.e. fiscal year 2055/56 to 2059/60. His study has used different types of financial ratios to check up the financial performance of these two finance companies. He found that the lending growth of AFCL is in increasing trend than that of POFIL. Both companies have provided term loan like home loan, business loan, hire purchase loan etc. than on fixed deposit loan. Moreover, AFCL and POFIL both had provided hire purchase loan for vehicle purchase, machinery and equipment purchase and durable household goods.

Shrestha (2006) has conducted a study on "A Study on Investment Portfolio of Pokhara Finance Limited". The main objective of this study is to measure the liquidity and profitability position of the POFIL and to analyze the risk and return of the company. The major investment sectors of POFIL are loan and advances, government securities and shares and debentures. She has taken six year data on this study i.e. 2055/56 to 2060/61. The investment on loan, government securities and shares and debentures are 99.59%, 0.67% and 0.02% respectively on the average in study period. According to her like other loan investment, hire purchase loan has been increasing substantially during the study period. The reason behind this is due to the gradual decrease in the interest rate charged by POFIL and so, the customers or the people are encourage to borrow the loan on this sector.

Karki (2008) has conducted a study on "Deposit collection, Loan Disbursement and Loan Recovery Pattern of Fewa Finance Company Limited, Pokhara" with the objective of analyze the performance of FFCL in term of deposit collection, loan disbursement and loan recovery. According to him, the deposit collection trend is increased and almost of the type wise deposit collection also increased. Similarly, the amount of total loan is also increased. The housing loan, business loan and hire purchasing loan purposes are covered high amount of loan. Most of loan customers are paid the interest with rebate and companies are needed to retain these customers satisfaction. The hire purchase loan has taken 23.71% of the total loan of FFCL on his study period i.e. fiscal year 2059/60 to 2063/64.

Manandhar (2008) conducted a research work on "Consumer Loan Mobilization by Selected Finance Companies of Pokhara". The main objective of this study was to analyze the consumer credit policy and to determine the consumer loan flow in

comparison to the deposit of selected finance companies. He has taken POFIL, AFCL and OFL as sample for the study. According to him, all selected finance companies have diversified their loans and advances on four different sectors namely hire purchase loan, home loan, term loan and fixed deposit loan. He found that the lending activities of these institutions are in growing trend during his research period. The POFIL invested Rs.51.79 million, AFCL has invested Rs.159.73 million and OFL invested Rs.35.2 million on hire purchase loan. He further added that the consumer loan to total deposit ratio of selected finance companies are not adopting the appropriate policies to manage and utilize the fund in income generating activities as well as to increase the quality of assets.

Baral (2009) has performed a study on "An Analysis of Financial Performance in the Framework of CAMEL of Om Finance Limited", with the objective of analyzing the financial performance in the CAMEL framework. Researcher had taken secondary data from fiscal year 2060/61 to 2064/65 and analyzed through different financial and statistical tools. The researcher found that the core capital adequacy ratios were above the NRB standard of the company and showed that the protection and security to creditors and depositors, which further illustrated the financial soundness of the company. The supplementary capital adequacy ratios of OFL were as per the NRB standard in all the year during the study period which leads to conclude that the company was running with adequate capital. The non performing loan ratios were in increasing trend whereas the loan loss ratio of the company was in fluctuating trend over the study period. It implied that the company was inefficient in recovering the default loan. Earnings per share were in increasing trend which was a good sign on management quality. The earning quality ratio like return on equity and return on assets were in fluctuating trends. The liquid assets to total deposit ratios and cash in vault to total deposit ratio were below the industrial average. On the basis of all findings, the researcher concluded that in total, OFL is financially sound and healthy.

Karki (2009) has conducted a study on "A Study on Investment Portfolio of Om Finance Limited". In her study she has tried to analyze the investment portfolio of Om Finance. The other objective of the study were to analyze the deposit mobilization and investment trend of the company, to measure the liquidity position, profitability position and to analyze the risk and return of the company. By using simple financial and statistical tools, she has analyzed the data and concluded that Om Finance has

been able to maintain a balance ratio among the deposit and investment. It is employing the safe lending procedure for investment, there is strong positive relation between deposits, loans and advances and investment during the study. She recommended for the continuous effort to explore competitive and highly yielding investment opportunities to optimize its investment portfolio. She further recommended expanding its credit in those areas that in turn help to minimize idle fund and to launch or initiate new packages, programmes and strategies for collecting more deposits.

Baral (2010) has conducted a study on "Hire Purchase Financing: A Case Study of Pokhara Finance Limited". His study mainly focused on hire purchase loan investment of POFIL. Hire purchase loan is a credit facilities introduced to finance the customer durables goods like motor vehicles, contractor equipment, other machines and equipments etc. It is an agreement whereby a buyer hires property for a period by paying installments and can own the property after the payments of all installments. POFIL provide this type of loan for purchasing vehicles and other machinery equipments. The interest rate on hire purchase loan varies 15 to 16.5%. Up to the end of fiscal year 2066/67, POFIL's deposit collection was Rs.1095.56 million, its loan disbursement was Rs.1366.76 million and investment on hire purchase loan was Rs.47.5 million. During the five year study period, POFIL's deposit collection and total loan disbursement was increasing day by day where as the investment on hire purchase loan was not satisfactorily increased.

Parajuli (2010) has conducted a study on "A Comparative Study on Investment Portfolio of Om Finance Limited and Fewa Finance Limited". The objective of his study was to analyze and compare different sectors of investment and their trend, merits and demerits of setting criteria for the investment on real state, profitability position, investment portfolio risk and return, portfolio performance. He has used mainly secondary data covered from 2060/61 to 2065/66. He has used different financial and statistical tools to analyze the investment portfolio of both the finance limited. The researcher has revealed that almost sent portion of investment has been made on loan and advances by both the finance limited. The trend of investment on loan and advances has been increasing by year to year during the study period of both finance companies. OFL and FFL has diversified its loan and advances on four different sectors - hire purchase loan, housing loan, term loan and fixed loan. The

main investment sector of loan and advance is housing loan for both the finance companies and secondly is term loan. Hire purchase loan and fixed loan have got third and fourth priority respectively. OFL and FFL both have been maintaining high return on equity since the starting years of the study period. Profit of FFL on total investment is higher than OFL but found less consistent and highly risky.

Gurung (2011) has carried out a study on "Hire Purchase Financing of Pokhara Finance Limited". The objective of the study was to analyze the hire purchase financing trend, to analyze the sub-sectoral investments under hire purchase loan, to examine the default ratio on hire purchase loan, to access the correlation between the total loan and hire purchase loan and to observe the loan recovery procedures of POFIL. By using different financial and statistical tools, he concluded that the investment on hire purchase financing has been given less priority as compare to other loan categories. Similarly, the sectoral wise investment of POFIL under hire purchase loan shows that the major portion of loan is invested in vehicles followed by the machinery and equipments and less priority is given to home appliances. The default ratio of hire purchase loan is lower which indicates that the investment is recovered within time. Further, he concluded that there is no any significant relationship between total loan and hire purchase loan and change in total loan does not affect the investment on hire purchase of POFIL.

K.C. (2011) has conducted a research on "A Study on Investment Portfolio of Fewa Finance Limited". The researcher found that maximum of investment is made on loans and advances. He found that investment regarding on hire purchase loan, housing loan, term loan and fixed deposit loan are in increasing trend. The loan loss provision to total loans and advances ratio has fluctuating trend, the loan and advance to total assets ratio of FFL has increasing with fluctuating trend likewise the loan and advances to total deposit ratio of FFL has increasing as well as slightly decreasing trend. Investment to total deposit ratio of FFL has decreasing trend over the researcher study period. Researcher found that non-performing loan ratio and return on total assets ratio of FFL has fluctuating trend.

Pathak (2011) has conducted a study on "Investment Portfolio of Finance Companies: Comparative Analysis of Annapurna Finance and Pokhara Finance". The main objectives of his study were to analyze and compare investment sector and their

trends, deposit mobilization, profitability position and risk and return of both the companies. Researcher has used mainly secondary data with different financial and statistical tools to analyze the investment portfolio of both the companies. Researcher has revealed that maximum of the investment of both the companies has been made on loan and advances, where they shares the highest percentage of 98.18 percent and 86.73 percent. Both the companies have diversified their loan and advances into five different categories namely hire purchase loan, housing loan, term loan, fixed deposit loan and other loan. During the study period, AFCL and POFIL as according to the mean ratio have highly invested in hire purchase loan and other loan respectively. The mean investment of hire purchase loan of AFCL is Rs.712.91 million whereas that of POFIL is Rs.47.52 million only. Researcher has concluded that the volume of investment is in high degree of both the finance companies but they have diversified in different sector on an average, AFCL has high share of total loan and advances than POFIL. The comparative growth ratio of AFCL and POFIL computed with total deposit, total loan and advances and total investment indicates that AFCL is having the acceptable growth ratio on all the sectors than POFIL. He has recommended that POFIL should focus in all the sectors for better growth and better health of the company.

Prior to this, many studies have been regarding loan mobilization of various financial institutions as well as investment policy of OFL. This research is focused only the hire purchase loan finance by OFL. It didn't cover other sectors of loan offered by OFL. This study attempts to analyze the hire purchase financing activities of OFL. This research is done with the help of different articles published on journals and websites, book and some topic related dissertation and annual reports of OFL.

2.3 Research Gap

Going through the review of various articles, publications and also the unpublished research works previously some researchers have done research on hire purchase financing. As long as researchers know, no specific research has yet been able to go in-depth of the topic and has successfully accomplished the specified objective of the research work. This research will fulfill the prevailing research gap by showing trend of investment in hire purchase by using some new statistical tools like regression line, significance test of regression parameters and by adding some new literature. This

study will show the effectiveness of lending decision on hire purchase loan of OFL by using descriptive and analytical research design.

Thus, this study will analyze how far OFL is achieving its goals in meeting consumers' needs and their satisfaction. In this study, the trend of investment process of OFL in the hire purchase loan is analyzed and existing investment situation and its investment strategy especially on hire purchase loan are carefully observed, which is not explained by previous studies. Furthermore, there is no any research has been conducted regarding the hire purchase financing of OFL. So, this will be a new research work on hire purchase loan of OFL.

CHAPTER III

RESEARCH METHODOLOGY

Research methodology plays a vital role in research study as it aims to present and reflect the methods, techniques and procedures that are applied in the entire subject of the study. This chapter traces out the overall framework or plan for the collection, analysis and presentation of data needed to fulfill the objectives of the study. It also specifies the methods and procedures for acquiring the information needed to solve the research problems.

3.1 Research Design

A research design serves as a framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized and the sampling plan to be followed (Pant, 2012). The study is designed with the framework of descriptive and analytical research design. Descriptive research design seeks to find out the fact by the help of sufficient data and information. Analytical research design makes analysis of the gathered facts and figure that makes a critical evaluation. Thus, the study is performed in and around the crux, to fulfill the research objectives.

3.2 Population and Sample

The term population for research means all the members of any well defined class of objects or events. It refers to the organizations of the same nature, its services and product in general. Similarly, sample is only the portion on sub-set of the universe population. For the study purpose, total finance companies are the population of the study and Om Finance Limited under the study constitutes the sample for this study. According to the mid-July 2012 quarterly economic bulletin published by NRB shows that altogether 70 finance companies are on operation in Nepal (NRB, 2012). Out of them only 5 finance companies are operating from Pokhara. The population of the study is all the finance companies in Nepal. But, this study being a case study of a

single unit, Om Finance Limited (OFL) has been selected as the sample for the study. Here convenience sampling method is used for the sampling purpose.

3.3 Nature and Sources of Data

As the study is based on secondary data collected for regular time intervals, for this the data required for the analysis are obtained from annual reports of OFL. Supplementary data and information are collected from the NRB reports and bulletins, published and unpublished articles and reports, economic journals, periodicals, bulletins, magazines and electronic data from various websites. However, the primary data is also used whenever necessary. Observations of operating procedures of the company and structured questionnaire to the concerned people are the sources of primary data.

3.4 Data Collection Procedure

Mainly, the study is dominated by secondary data collected from the sources mentioned above. The needed primary data is collected by using structured questionnaire with concerned personnel of OFL and the direct observations of operating procedures of the finance company. Similarly, the annual reports and other required information of the company were obtained from their head office and the official website. NRB reports, directives, banking and financial statistics and other publications were obtained from NRB Pokhara branch and its official website.

3.5 Data Processing and Analysis Procedure

The analysis of the data is done according to the pattern of the data available. The collected raw data through various instruments and sources were first edited and analyzed thoroughly and then presented in appropriate tables, charts and diagrams with the help of computer for further analysis and interpretation. In this study, mostly descriptive tools are used to get the meaningful result of the collected data and to meet the research objectives.

3.6 Data Analysis Tools

In this study, the data are analyzed in accordance to the available data and information. So, the financial tools as well as other simple mathematical and statistical tools are used to accomplish the objectives of the study in order to make the analysis more convenience, reliable and authentic too. Besides these, tables and bar diagrams are also presented to analyze and interpret the findings of the study. The major tools applied in this study are discussed as below.

3.6.1 Financial Tools

Financial tools are used to obtain better insight into firm's position and performance. Financial tools basically help to analyze the financial strength and weakness of a firm by properly establishing the relationship between the terms of financial statements. Ratio analysis is one of the powerful tools of financial analysis that have been used in the study. In comparison to this study following ratio is calculated and carried out to get the objective of research.

Hire Purchase Loan to Total Loan Ratio

The hire purchase loan to total loan ratio shows the relationship between hire purchase loan and total loan invested by OFL. It indicates that what percentage of total loan is invested on hire purchase loan. In this context, the hire purchase loan to total loan ratio is calculated by dividing the hire purchase loan by total loan. For the purpose of this study following formula is used to calculate the ratio:

$$\text{HPLTLR} = \frac{\text{Total Hire Purchase Loan}}{\text{Total Loan}} \times 100 \dots\dots\dots (3.1)$$

Where,

HPLTLR = Hire Purchase Loan to Total Loan Ratio

Total Hire Purchase Loan = Total investment on hire purchase loan by OFL

Total Loan = Total amount of investment on loan by OFL

Hire Purchase Loan to Total Deposit Ratio

The hire purchase loan to total deposit ratio shows the relationship between hire purchase loan and total deposit collected by OFL. This ratio indicates what percentage

of total deposit are used in the single investment i.e. hire purchase loan. In this context, the hire purchase loan to total deposit ratio is calculated by dividing the hire purchase loan by total deposit. For the purpose of this study following formula is used to calculate the ratio:

$$\text{HPLTDR} \times \frac{\text{Total Hire Purchase Loan}}{\text{Total Deposit}} | 100 \dots\dots\dots (3.2)$$

Where,

HPLTDR = Hire Purchase Loan to Total Deposit Ratio

Total Hire Purchase Loan = Total investment on hire purchase loan by OFL

Total Deposit = Total amount of deposit collected by OFL in different deposit account

Hire Purchase Loan Default Ratio

This ratio is used to find out the position of defaulter on hire purchase loan investment by OFL. It indicates that what percentage of total investment on hire purchase loan is in risk. It means that what percentage of hire purchase loan is facing difficulties in recovering process. In this context, the Hire Purchase Loan Default ratio is calculated by dividing the default hire purchase loan by the total hire purchase loan.

$$\text{HPLDR} \times \frac{\text{Default Hire Purchase Loan}}{\text{Total Hire Purchase Loan}} | 100 \dots\dots\dots (3.3)$$

Where,

HPLDR = Hire Purchase Loan Default Ratio

Default Hire Purchase Loan = Total defaulter on Hire Purchase loan invested by OFL

Total Hire Purchase Loan = Total amount of loan invested on hire purchase by OFL

Growth Rate

To know the trend of increase or decrease of hire purchase loan, growth rate of total deposit, growth rate of total loan and growth rate of hire purchase loan are calculated by using the following formula:

$$G \times \frac{P_1 - P_0}{P_0} | 100\% \dots\dots\dots (3.4)$$

Where,

P_0 = Total deposit, total loan and hire purchase loan of previous year.

P_1 = Total deposit, total loan and hire purchase loan of current year.

G = Growth rate.

3.6.2 Statistical Tools

Some important statistical tools are used to analyze the study of hire purchase financing of OFL. In this study, statistical tools such as mean, standard deviation, coefficient of variation, Karl Pearson's coefficient of correlation, probable error, regression analysis are used, which are as follows:

i. Mean: A mean is the average value, which is obtained by dividing the sum of all the observations by the number of observations. It is denoted by \bar{X} and calculated as follows:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n} \dots\dots\dots (3.5)$$

Where,

\bar{X} = Arithmetic mean

$\sum X$ = Sum of the values

n = Number of observations

ii. Standard Deviation (S.D.): The standard deviation measures the absolute dispersion. The measurement of the scattered ness of the mass of figures in a series about an average is known as the dispersion. Greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just opposite. Karl Pearson introduced the concept of standard deviation in 1893 A.D. and is denoted by the small Greek letter σ (sigma) (Gupta, 1990). It is calculated by using the formula below:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2} \dots\dots\dots (3.6)$$

Where,

σ = Standard Deviation

n = Number of observations

X= Individual value

iii. Coefficient of Variation (C.V.): The coefficient of variation is the relative measures of dispersion comparable across distribution which is defined as the ratio of the standard deviation to the mean expressed in percent (Gupta, 1990). With the help of coefficient of variation the variables can be compared independently in terms of their variability. Less the coefficient of variation more will be uniformity and consistency and more the coefficient of variation less will be the uniformity and consistency. Hence, the coefficient of variation is under taken regarding to this study in order to compare the variability of various data respectively. It is the magnitude of deviation relative to the magnitude of the mean. It is undertaken to compare the variability in various data of the finance company. It is calculated as follows:

$$C.V. = \frac{\Sigma}{\bar{X}} | 100\% \dots\dots\dots (3.7)$$

Where,

C.V. = Coefficient of Variation

= Standard Deviation

\bar{X} = Average/ Mean

It is derived from coefficient of standard deviation i.e. $\frac{\Sigma}{\bar{X}}$.

iv. Least Square Trend Analysis: The least square trend analysis has been used to find out the trend in hire purchase loan, total loan and total deposit. Let the trend line between the dependent variable Y and independent variable X (i.e. time) be represented in equation form given below (Bajracharya, 2055 BS):

$$Y = a + bX \dots\dots\dots (3.8)$$

Where,

Y = Dependent variable

X = Independent variable (i.e. time)

a = Y - intercept

b = Slope of the trend line

v. Karl Pearson's Coefficient of Correlation: Karl Pearson's Coefficient of Correlation is used to find out the coefficient of correlation between two variables. The coefficient of correlation measures the degree of relationship between the two

sets of variables (dependent and independent variables). Correlation is the statistical tools that we can use to describe the degree in which one variable is linearly related to another. (Levin & Rubin, 1998). In this study, to test the significant relationship of hire purchase loan with total deposit collection and total loan investment, the Karl Pearson's Coefficient of Correlation 'r' is used. To measure the level of significance 'r' is taken as significant, if the value of 'r' is more than six times of probable error. In the study the following formula is used to find out the coefficient of correlation.

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}} \dots\dots\dots (3.9)$$

Where,

r = Coefficient of correlation

n = Number of pair observations

X= Total deposit or total loan

Y= Hire purchase loan

The result of coefficient of correlation always lies between ± 1 . The value of $r = +1$ signifies perfect positive correlation between the two variables, while the value of $r = -1$ signifies perfect negative correlation between them. But, if the value of coefficient of correlation is zero then it is said that there is no any relationship between the two variables.

vi. Probable Error (P.E.): Probable error (P.E.) helps to interpret the value as well as measures the reliability of the coefficient of correlation. The probable error of the coefficient of correlation is applicable for the measurement of reliability of the computed value of the coefficient of correlation, 'r' (Shrestha & Silwal, 2057 BS). If the value of coefficient of correlation is greater than six times of the probable error, the value of coefficient of correlation is said to be significant. If the value of coefficient of correlation is less than the probable error, the value of coefficient of correlation is said to be insignificant. Probable error of coefficient of correlation is calculated as below:

$$P.E.(r) = 0.6745 \left| \frac{1 - r^2}{\sqrt{n}} \right| \dots\dots\dots (3.10)$$

Where,

P.E.(r)= Probable error of coefficient of correlation

r = Coefficient of correlation

n = Number of observations

The following guidelines may be used:

- (a) If $r < P.E.(r)$ i.e., if the observed value of r is less than its P.E., then correlation is not at all significant.
- (b) If $r > 6 P.E. (r)$ i.e., if the observed value of r is greater than 6 times its P.E. then r is definitely significant.
- (c) In other situations, nothing can be concluded with certainty.

vii. Regression Analysis: Regression analysis, in the general sense, means the estimation or prediction of the unknown value of one variable from the known value of the other variables (Gupta, 1990). More specifically, regression analysis helps us understand how the typical values of the dependent variable changes when any one of the independent variable is varied, while the other independent variable are held fixed. Regression analysis is widely used for prediction and forecasting.

A line of regression gives the best estimate of one variable for any given value of other variable. The regression equation of Y on X is given below (Bajracharya, 2055 BS):

$$Y = a + bX \dots \dots \dots (3.11)$$

Where,

Y = Dependent variable

X = Independent variable

a = Y- intercept or regression constant

b = Slope of the line or coefficient of regression

In above regression equation, the value of Y is determined by the value of X. Regression equation or line is very important in calculating economic variables.

viii. Hypothesis Testing: A quantitative statement about the population parameter is called a hypothesis. It is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid on verification. The act of verification involves testing the validity of such assumption which, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis or test of significance (Sharma & Chaudhary, 2005). By testing the hypothesis we can find out whether it deserves the acceptance or rejection of the

hypothesis. The acceptance of hypothesis means there is no any sufficient evidence provided by the sample to reject it and does not necessarily imply that it is true. The main goal of testing of hypothesis is to test the characteristics of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistics is significant or not.

The two complementary hypotheses that are set up in the testing of hypothesis are null hypothesis and alternative hypothesis. A statistical hypothesis or assumption made about the population parameter to testing its validity for the purpose of possible acceptance is called null hypothesis. A complementary hypothesis to null hypothesis is called an alternative hypothesis or a hypothesis which is set up against the null hypothesis is called an alternative hypothesis (ibid.).

Here, the t- statistic has been used to test the significant impact of total deposit on hire purchase loan and total loan investment on hire purchase loan separately.

For regression equation of hire purchase loan on total deposit $Y=a+bX$, the following hypotheses for a and b have been tested.

Null hypothesis H_0 : $a = 0$, i.e. there is no significant effect of other variables except total deposit on hire purchase loan.

Alternative hypothesis H_1 : $a > 0$, i.e. there is significant effect of other variables except total deposit on hire purchase loan.

Test statistic under null hypothesis is

$$t_{(a)} = \frac{X \cdot a}{S.E.(a)}$$

Where, S.E.(a)= Standard error of a and defined as

$$S.E.(a) = X \sqrt{\frac{e^2}{n} \frac{1}{Z^2} \frac{\bar{X}^2}{x^2}}, \text{ where, } x^2 = \frac{X^2}{Zn\bar{X}^2} \dots\dots\dots (3.12)$$

Null hypothesis H_0 : $b = 0$, i.e. there is no significant effect of total deposit on hire purchase loan.

Alternative hypothesis H_1 : $b \neq 0$, i.e. there is significant effect of total deposit on hire purchase loan.

Test statistic under null hypothesis is

$$t_{(b)} = \frac{X \cdot b}{S.E.(b)}$$

Where, S.E.(b)= Standard error of b and defined as

$$S.E.(b) = \sqrt{\frac{e^2}{n} \frac{1}{\sum x^2}} \dots\dots\dots (3.13)$$

If the calculated value of t is greater than tabulated value of t at α level of significance with n-2 degrees of freedom, then null hypothesis is accepted otherwise rejected and alternative hypothesis is accepted.

Likewise, for regression equation of hire purchase loan on total loan investment $Y=a+bX$, the null and alternative hypotheses for a and b have been tested as above.

3.7 Limitations of the Methodology

As this study is carried within the framework of case study research design, it is bounded by its own methodology. So, it cannot be said that it is free from any limitations.

- The analysis is based upon both the primary and secondary data. Hence, it may suffer from the limitations of both.
- The method adapted from the online websites sources may get changed or updated during the course of research which may create a problem in the whole thesis writing process.
- Convenience sampling method is used which is not free from criticisms. It does not cover every aspect of finance company.

The financial as well as statistical tools which are used to analyze the collected data are used on creation assumptions. So, reliability of the analysis depends upon the circumstances on which the models are used.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is analytical and important part of the study. The concern is given to analysis and interpretation of relevant and available data of OFL, which has been dealt in detail in order to fulfill the major objectives of this study. The data have been analyzed according to the research methodology as mentioned in chapter three to get best results.

4.1. Analysis of the Trend of Hire Purchase Financing of OFL

Hire purchase loan is one of the important loan investment sectors of OFL. This type of loan is related to purchase of vehicles, machinery and instruments. Clients use the amount of loan to purchase such items. Because this types of loan are generally taken for business or for luxury. High interest rate on hire purchase loan is applied. The interest rate depends upon situation and it lies between 15% to 18% during the study period of OFL. While going through analysis of hire purchase trend of OFL, one has to have a glance on the Hire Purchase Financing Policy of OFL.

The main purpose of developing the hire purchase financing policy is to facilitate in purchasing new, reconditioned, used vehicle or heavy equipment for private or commercial use by individual or organization and further to facilitate refinancing self-owned vehicle/loan obtained for financing old vehicle or heavy equipments.

OFL has the loan range of minimum Rs.5 lakhs and Rs.50 lakhs to the maximum with interest rate of 15% to 18% and service charge of up to two percent. In case of motorcycle the minimum range of loan is 40% of quotation price. In case of financing new private/public vehicles, OFL provide maximum 80% of the quotation price of the vehicle or Rs.50 lakhs whichever is lower as hire purchase loan. However, 95% of the quotation price or Rs.50 lakhs, which ever is lower, is financed when there is additional collateral is provided along with.

Similarly, in case of used vehicles within five years of the date of manufacture, maximum 70% of the purchase price of the distress value of the vehicle as assessed by the OFL's approved valuator whichever is lower. Whereas, in the case of used vehicles above five years of the date of manufacture, maximum 60% of the purchase price of the distress value of the vehicle as assessed by the OFL's approved valuator whichever is lower. While re-financing the vehicle 100% of the principal outstanding of the loan on existing repayment term from the other bank or financial institution in case of extra collateral provided and maximum 60% of the principal outstanding loan in the case of existing repayment term from the other bank or financial institution. Valuation assessed by OFL's approved valuator is must. Maximum five years period is provided to private vehicles as tenure period. The same maximum five years period is provided to the used vehicles also. However, the maximum tenure including the date of manufacturing of the vehicle should not exceed seven years. All the security documents like, registration of the vehicles in favor of finance company, personal guarantee, letter of consent authoring finance to sell the vehicle to third party at its will, insurance, etc are compulsory. The vehicle will have to be insured under a comprehensive policy enlisting the total value of vehicles. The subsequent of completion of security documentation, and registration of the vehicle in the OFL's name, payment will be made directly to the vehicle dealer. However in case of refinancing, payment will be made directly to the existing financing institution or borrower upon the registration of the vehicle in the name of OFL.

4.1.1 Hire Purchase Loan and Trend of Hire Purchase Loan

Hire purchase loan is that type of loan where the client takes the loan (credit facility) for the purchase of vehicles (car, jeep, bus, truck, van, tractor, motorcycle, etc.), machineries, equipments, and tools (photocopy machine, generator, computer, etc.), durable household goods and other movable properties. This type of credit facility is meant for those who find it hard to save up the market price of the product in advance. Under this loan the ownership of durable product remains with financial institution until the final installment payment made by the customer. OFL provides this type of loan for purchasing vehicles and other machinery and equipments. The interest rate varies from 15 to 18 percent. Like other finance companies this type of loan is one of

the main scales of loan investment for OFL. The hire purchase loan investment of OFL and trend of hire purchase loan is shown in table 4.1 and figure 4.1.

Table 4.1
Hire Purchase Loan and Trend of Hire Purchase Loan (Rs. in million)

FY	2064/65	2065/66	2066/67	2067/68	2068/69	Mean	S.D.	C.V.(%)
HPL	76.03	125.15	142.82	189.41	177.30	142.142	40.32	28.37

Source: Adopted and calculated from records of various years of OFL.

The table 4.1 depicts the hire purchase loan and trend of hire purchase loan of OFL from FY 2064/65 to FY 2068/69. It is found that the total investment on hire purchase loan in FY 2064/65 is Rs.76.03 million while in FY 2065/66, the investment is increased and reached to Rs.125.15 million. Similarly, in FY 2066/67 and FY 2067/68, the investment is increased to Rs.142.82 and Rs.189.41 million respectively. But in FY 2068/69, the investment is decreased and reached to Rs.177.30 million. The mean of hire purchase loan is Rs.142.142 million and S.D. is Rs.40.32 million and C.V. between them is 28.37 percent. It shows that there is 28.37 percent variation in the HPL during study period. It also exhibit C.V. is less than mean which shows satisfactory uniformity in HPL in the same period. The hire purchase loan and trend of hire purchase loan is shown in figure 4.1

Figure 4.1
Hire Purchase Loan and Trend of Hire Purchase Loan

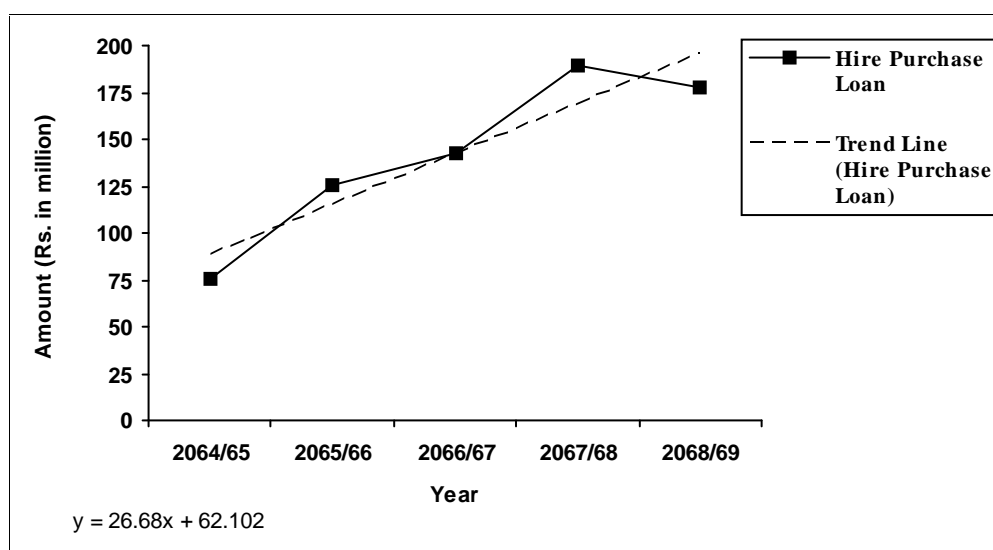


Figure 4.1 depicts that there is fluctuating trend of hire purchase loan of OFL over the study period. The amount invested on hire purchase loan ranges from Rs.76.03 million to Rs.177.30 million. The trend line estimated by least square method of hire purchase loan shows that the positive slope of the trend line is positive, which shows the increasing trend in hire purchase loan during the study period. It shows the upward movement of hire purchase loan till FY 2067/68 and then downward movement up to final year of the study.

4.1.2 Analysis of the Proportion of Hire Purchase Loan on Total Loan

Hire purchase loan is the credit facilities introduced to finance the consumers' durable goods like motors, vehicles and other machines and equipments. The bank or financial institution extends loan to generate interest income along with the expectation of getting the principle back with the stipulated time period. Total loan is the total investment on different loan sectors of OFL. The hire purchase loan is one of the loan sectors of overall loan or total loan. Table 4.2 presents the proportion of hire purchase loan on total loan of OFL in different five years study period.

Table 4.2
Proportion of Hire Purchase Loan on Total Loan (Rs. in million)

Fiscal Year	Hire Purchase Loan	Growth Rate	Total Loan	Growth Rate
2064/65	76.03	-	895.83	-
2065/66	125.15	64.61%	1280.28	43%
2066/67	142.82	14.11%	1466.74	14.60%
2067/68	189.41	32.62%	1954.40	33.25%
2068/69	177.30	-6.40%	2521.09	29%
Mean	142.142	26.23%	1623.668	29.96%
S.D.	40.32		563.39	
C.V. (%)	28.37		34.70	

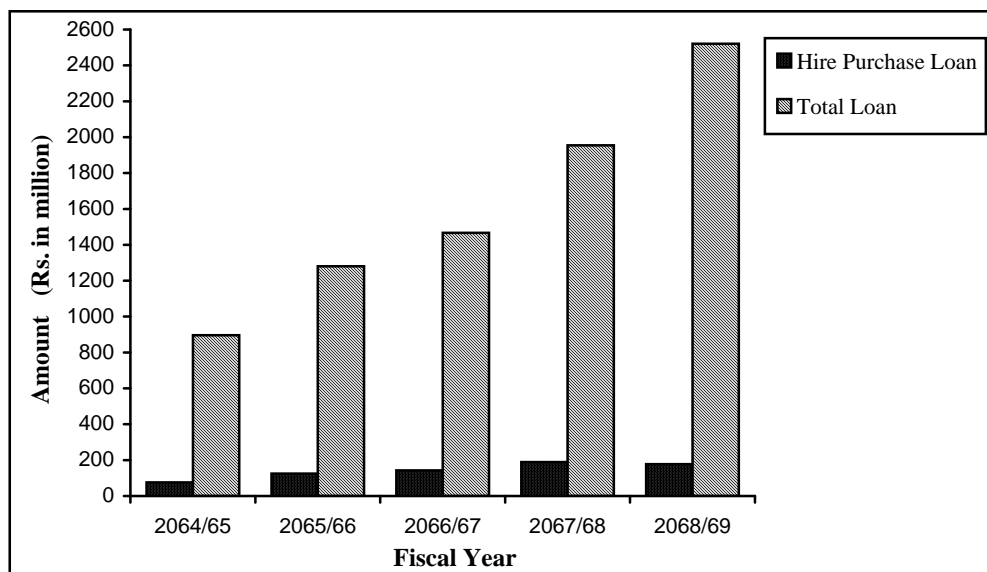
Source: Adopted and calculated from records of various years of OFL.

Table 4.2 shows the amount of hire purchase loan and total loan during the study period of past five years. The table shows that hire purchase loan is always smaller than its total loan investment. The hire purchase loan is Rs.76.03 million in FY

2064/65 and thereafter, it is increasing by 64.61%, 14.11% and 32.62% in FY 2065/66, FY 2066/67 and FY 2067/68 respectively in comparison to previous year. But, the growth rate of hire purchase loan is decreased to 6.40% in FY 2068/69. Here, the amount of hire purchase loan increasing in rapidly in FY 2065/66 and FY 2067/68. The amount invested on this sector ranges from Rs.76.03 million to Rs.177.30 million with mean of Rs.142.142 million and S.D. of Rs.40.32 million and C.V. is 28.37%. This shows that there is satisfactory consistency over the study period. Similarly, the total loan is Rs.895.83 million in FY 2064/65 and then it is increasing in each year up to the FY 2068/69. The total loan is increasing by 43%, 14.60%, 33.25% and 29% in FY 2065/66, FY 2066/67, FY 2067/68 and FY 2068/69 respectively in comparison to previous year. Hence, the amount of total loan is increasing rapidly in FY 2065/66 and FY 2067/68. The amount of total loan investment ranged from Rs.895.83 million to Rs.2521.09 million with mean of Rs.1623.668 million and S.D. of Rs.563.39 million and C.V. is 34.70%. Since, C.V. is less than mean, it shows that there is satisfactory consistency over the study period. Since, the C.V. of the hire purchase loan is less than the C.V. of total loan. Therefore, it is concluded that hire purchase loan is more consistent than total loan. The table 4.2 has been shown in figure 4.2.

Figure 4.2

Proportion of Hire Purchase Loan on Total Loan



The tabulated data is clearly shown through bar diagram. Figure 4.1 shows the hire purchase loan and total loan of OFL in different five years period. OFL has invested Rs.895.83 million in total loan in FY 2064/65 which was increased to Rs.2521.09 million in FY 2068/69. Out of total loan, OFL has invested Rs.76.03 million on hire purchase loan in FY 2064/65, whereas it has invested Rs.177.30 million on hire purchase loan in FY 2068/69, which is Rs.2521.09 million as a small portion of total loan. It is obvious from bar diagram that hire purchase loan is less than total loan because it is only one sector of total loan investment.

4.1.3 Hire Purchase Loan to Total Loan Ratio

The ratio of hire purchase loan to total loan shows the relationship between the hire purchase loan and total loan. This ratio indicates how much of total loan is invested on hire purchase loan. This ratio is calculated by dividing hire purchase loan by total loan. Table 4.3 presents the percentage of hire purchase loan with total loan in different five years of study period.

Table 4.3
Hire Purchase Loan to Total Loan Ratio

FY	2064/65	2065/66	2066/67	2067/68	2068/69	Mean	S.D.	C.V.
HPLTLR(%)	8.49	9.78	9.74	9.69	7.03	8.95	1.07	11.96

Source: Adopted and calculated from various annual reports of OFL.

Table 4.3 reveals that hire purchase loan to total loan ratio of OFL is fluctuating during the study period. This ratio is highest (9.78%) in FY 2065/66 and lowest (7.03%) in FY 2068/69. The mean of the ratio is 8.95% and S.D. of the ratio during the study period is 1.07%. The C.V. is 11.96%, which is more than mean. Therefore, it can be concluded that the ratio is more variable. The tabulated data is clearly shown in figure 4.3.

Figure 4.3 depicts the increasing and decreasing trend of hire purchase loan to total loan ratio of OFL in the past five years.

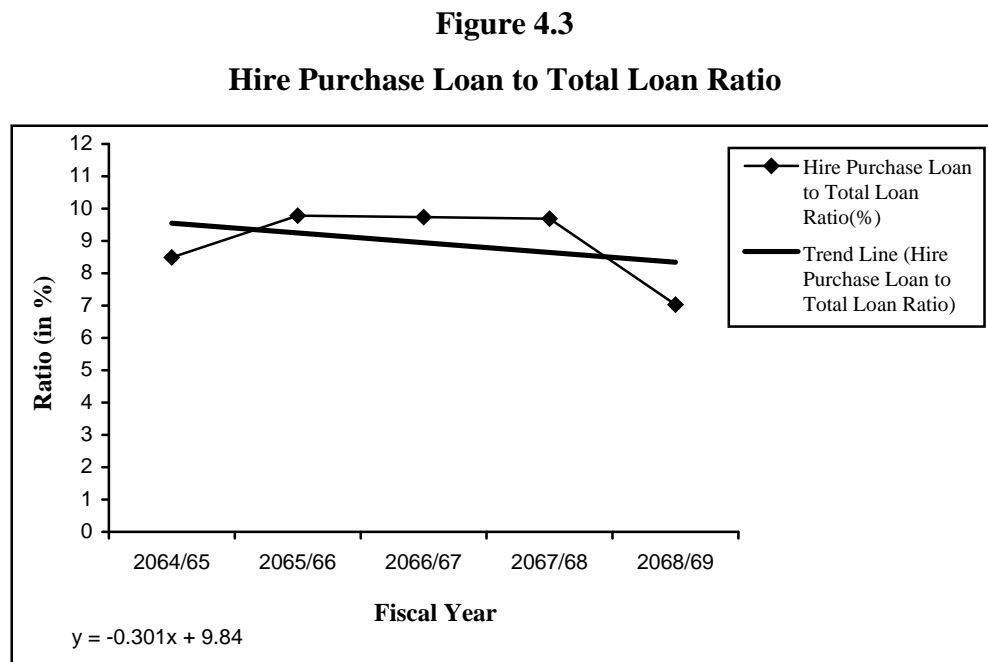


Figure 4.3 depicts the increasing and decreasing trend of hire purchase loan to total loan ratio of OFL in the past five years. Figure 4.3 shows that the ratio has raised in FY 2065/66 and thereafter, it has been gradually decreasing from FY 2066/67 to FY 2068/69. The observed values of the ratio are fluctuating over the study period. The trend line obtained by least square method indicates that the slope of the trend line is negative (-0.301). It indicates that the trend of the hire purchase loan to total loan ratio is declining over the study period.

To analyze the hire purchase trend of OFL, a series of questions that the respondents of OFL have to answer in a set format, questionnaire is developed to know the opinion of credit/marketing staffs of OFL. It is based on the opinion survey upon eighteen credit/marketing staffs (respondents) of OFL. The following series of questions were set to meet the objectives of the study.

4.1.4 Hire Purchase Loan Users

Hire purchase loan users of OFL are mainly businessmen, professionals and households users. Businessmen and then professionals' users are more attracted to the hire purchase loan of OFL.

Table 4.4
Hire Purchase Loan Users

Hire Purchase Loan Users	Rank					
	First	%	Second	%	Third	%
Businessmen	7	38.89	11	61.11		
Professionals	11	61.11	7	38.89		
Households					18	100
Total	18	100	18	100	18	100

Source: Field Survey, 2013.

Table 4.4 shows the hire purchase loan users status of OFL. In the overall ranks to the user categories like businessmen, professionals and households of hire purchase loan of OFL, 61.11% of respondents gave the first rank to the professionals and 38.89% gave the same rank to the businessmen. Cent percent respondents gave the third rank to the household users.

Figure 4.4
Hire Purchase Loan Users

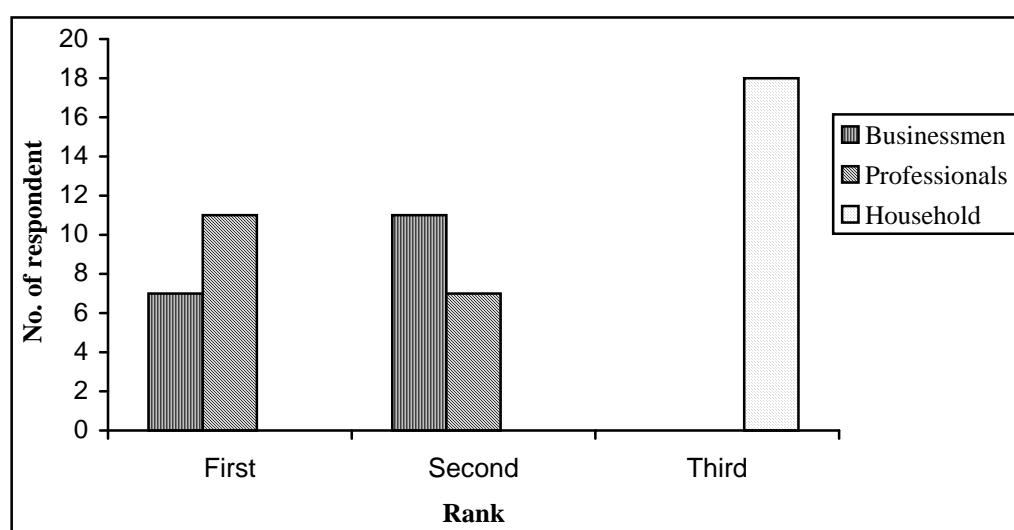


Figure 4.4 shows that mostly professional are users of hire purchase loan who utilizes the loan for the commercial purpose. While businessmen falls under the secondary, mainly consisting of the business firms, under the name of which the loan is sanctioned. Almost third rank has been assigned to the household users' category. The figure shows still in Nepal vehicles for personal use is beyond a normal Nepalese standard.

4.1.5 The Major Factors Considered on the part of Customers while Lending Hire Purchase Loan

While lending hire purchase loan to the customers' income level of customer, nature of occupation, business property, creditability of customer and guarantor's worthiness are the factors considered by OFL.

Table 4.5
Factors Considered while Lending Hire Purchase Loan

Factors	Rank									
	First	%	Second	%	Third	%	Fourth	%	Fifth	%
Level of income	12	66.67	6	33.33						
Nature of occupation			9	50.00	9	50.00				
Business property							16	88.89	2	11.11
Creditability of customer	6	33.33	3	16.67	9	50.00				
Guarantor's worthiness							2	11.11	16	88.89
Total	18	100	18	100	18	100	18	100	18	100

Source: Field Survey, 2013.

Table 4.5 shows that the factors to be considered on the part of customers while making lending decision on hire purchase loan by OFL. Majority of respondents' i.e. 66.67% gave the first rank to the level of income of the customers. However, 33.33% of respondents gave the same first rank to the credibility of the customers. 50% of the respondents gave the second rank to the nature of occupation in which the customers involved, which is followed by the level of income and the credibility with 33.33% and 16.67% respectively. The same equal percentage of respondents' i.e. 50%

assigned the third rank to the nature of occupation and credibility. 88.89% of respondents gave the fourth rank to business property and 11.11% respondents gave the same rank to guarantor's worthiness.

Figure 4.5
Factors Considered while Lending Hire Purchase Loan

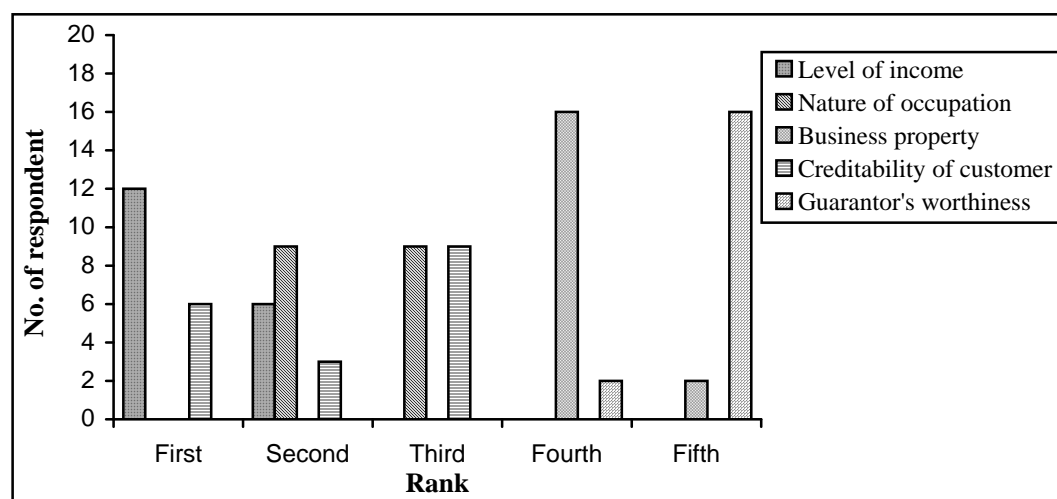


Figure 4.5 shows that the level of income is always a standard measure for lending any loan, which is significant in hire purchase loan as well as diagrammatically shown that 66.67% of respondents assigned first rank to the level of income. The nature of occupation the customer involved in was ranked the secondary followed by the same equal level of percentage i.e. 50% on occupation and creditability of the customers for the third rank least ranks were assigned to business property and guarantor's worthiness.

4.1.6 Hire Purchase Loan Installment Payment Status

Hire purchase loan installment payment status means the regularity or irregularity in the installment payment of hire purchase loan by the customers of OFL.

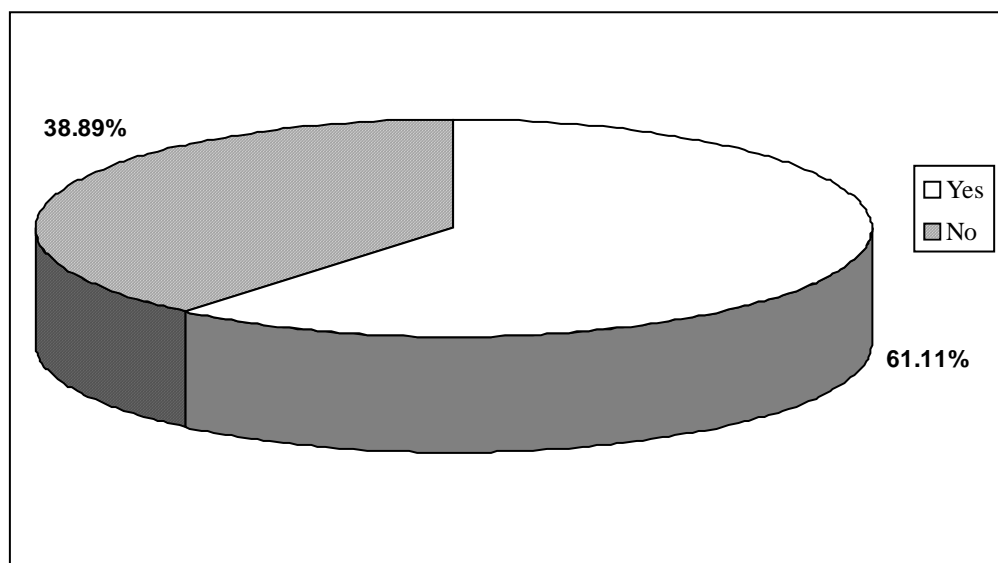
Table 4.6
Hire Purchase Loan Installment Payment Status

Option	No. of Respondent	%
Yes	11	61.11
No	7	38.89
Total	18	100

Source: Field Survey, 2013.

Table 4.6 shows the number of respondents with their verdict about the regularity of installment payment of hire purchase loan in time. As per table, 61.11% of respondents opined that the users of hire purchase loan pay their installment in time while 38.89% experienced that they do not pay in time. This represents that the majority of hire purchase loan users pay their installment in time and the least of them don't. The tabulated data is clearly shown below on pie-chart.

Figure 4.6
Hire Purchase Installment Payment Status



The tabulated data is clearly shown on pie chart. Figure 4.6 explains that by far, the payers of the installments of hire purchase loan i.e. 61.11% exceed the non payers' i.e. 38.89% despite all the difficulties and inevitable circumstances that occur in the case of vehicles which paves a better way of investment in this sector in the following days to come.

4.1.7 Reasons for Being Default on Hire Purchase Loan

Unfavorable business situation or failure of business, political instability of the country, intention or negligence of the customer is the major reasons for failure or default in payment of installment.

Table 4.7 represents the reasons behind the being loan default on hire purchase loan of OFL on which number of respondents gave their opinions.

Table 4.7
Reasons for Being Default on Hire Purchase Loan

Reason	Rank					
	First	%	Second	%	Third	%
Business failure	12	66.67	6	33.34		
Political instability	6	33.33	8	44.44	4	22.22
Intention/negligence of customer			4	22.22	14	77.78
Total	18	100	18	100	18	100

Source: Field Survey, 2013.

Table 4.7 shows 66.67% of respondents gave their opinion that the foremost reason for breakdown in installments payment is due to the business failure and followed by political instability in the second. 77.78% of respondents opined that the intention and negligence on the part of customers is the third reason for being default on hire purchase loan.

Figure 4.7
Reasons for Being Default on Hire Purchase Loan

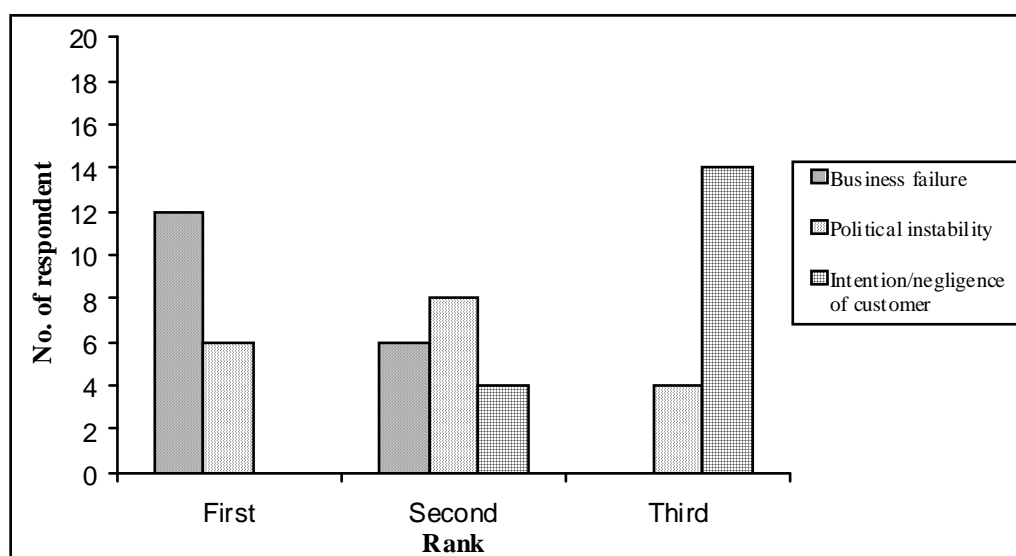


Figure 4.7 depicts that 66.67% respondents opined that the first reason for default in payment of installment is due to business failure i.e. unfavorable business situation and 44.44% of respondents opined that political instability could be the second reason rather than first and 77.78% of respondents opined that intention or negligence on the part of customers i.e. lack of timely payment habit of the customers is the third reason of default on hire purchase loan installment.

4.1.8 Loan Recovery Procedures Followed by OFL

OFL has its own loan recovery procedures and mechanism. The loan recovery procedures contains phone call to the customers, letter writing, personal visit to the customers and legal action.

Table 4.8
Loan Recovery Procedures Followed by OFL

Loan recovery procedures	Rank							
	First	%	Second	%	Third	%	Fourth	%
Phone call	18	100						
Letter writing			6	33.33	12	66.67		
Personal visit			12	66.67	6	33.33		
Legal action							18	100
Total	18	100	18	100	18	100	18	100

Source: Field Survey, 2013.

Table 4.8, shows that cent percent respondents gave the first priority to the phone call as the first step where client is reminded about the overdue installment gently. Similarly, 6.75% of respondents gave the second rank to personal visit likewise 33.33% of respondents gave the same rank to letter writing. Legal action was ranked as the ultimate step of recovering the overdue loan. In some cases, they take action against defaulters as per the provision of Bank and Financial Institution Ordinance, 2004 and Nepal Rastra Bank Directives.

Figure 4.8, shows the serial steps followed by OFL in the recovery procedures of loan from its clients.

Figure 4.8
Loan Recovery Procedures Followed by OFL

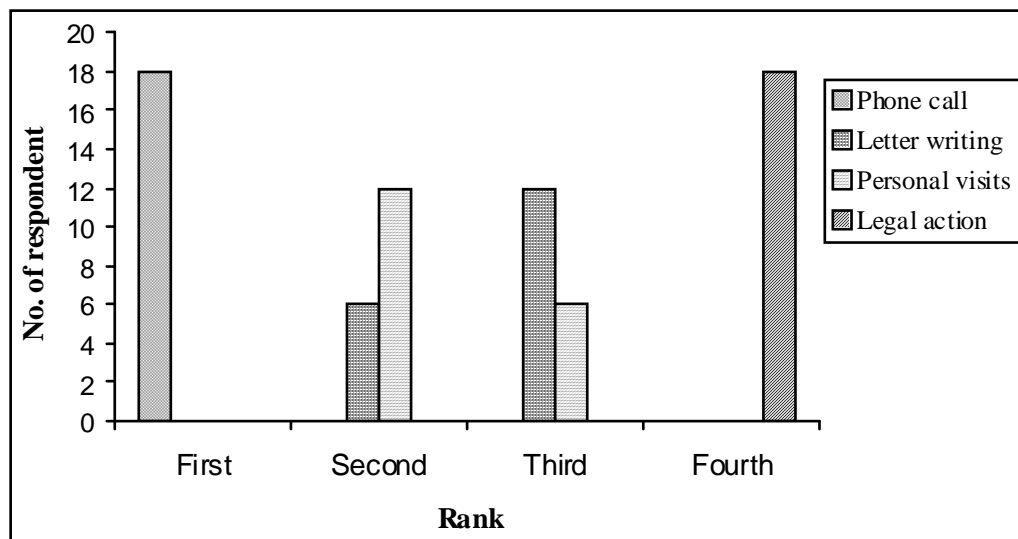


Figure 4.8 depicts that phone call is the first step followed by OFL incase default occurs in hire purchase loan. Whereas the legal action which is sought as the final step in other institutions is regarded as the initial step of recovery in OFL being hire purchase as one of the most sensitive portfolios which encompasses of seize of the vehicle under legal obligation while letter writing and personal visits are given equal importance and falls in the second step.

4.1.9 Analysis of the Proportion of Hire Purchase Loan on Total Deposit

Hire purchase loan is one of the important sectors of overall loan. The hire purchase loan is the credit facilities introduced to finance the consumers' durable goods like automobiles and machineries and equipments. Deposits are those funds that the finance company collects from different individuals, investors and business firm that have to be given back after certain period of time with some interest. Deposit is the main source of funds for the finance company for lending and investment operations. Higher volume of deposit result to higher volume of lending and investment, which again generate higher volume of income. So, the finance company tries to mobilize as much deposit as possible by various devices.

Table 4.9 presents the proportion of hire purchase loan on total deposit of OFL in different five years study period.

Table 4.9
Proportion of Hire Purchase Loan on Total Deposit (Rs. in million)

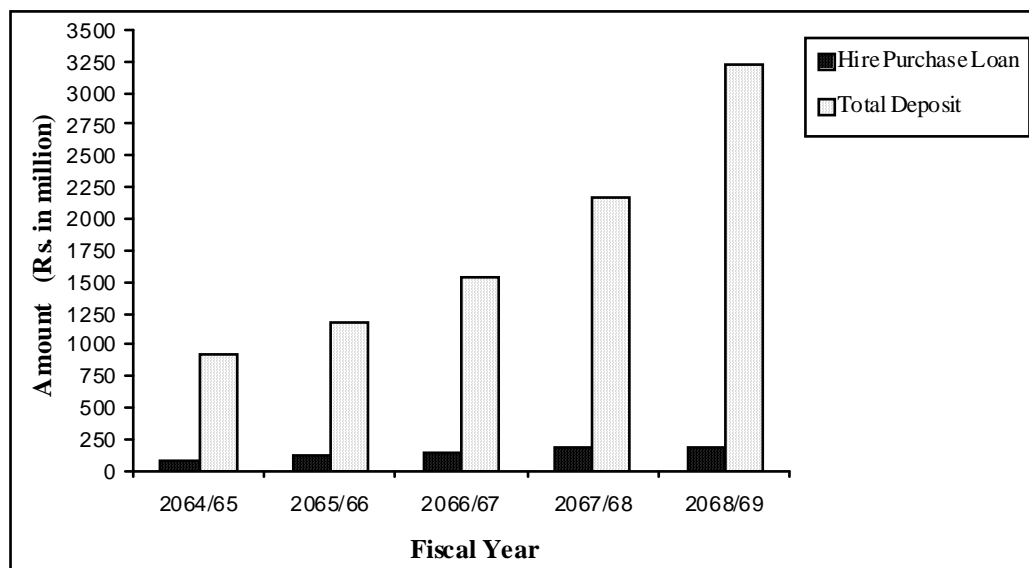
Fiscal Year	Hire Purchase Loan	Growth Rate	Total Deposit	Growth Rate
2064/65	76.03	-	922.27	-
2065/66	125.15	64.61%	1168.34	26.68%
2066/67	142.82	14.11%	1527.28	30.72%
2067/68	189.41	32.62%	2162.35	42%
2068/69	177.30	-6.40%	3227.56	49%
Mean	142.142	26.23%	1801.56	37.10%
S.D.	40.32		826.20	
C.V. (%)	28.37		45.86	

Source: Adopted and calculated from records of various years of OFL.

Table 4.9 shows the amount of total hire purchase loan and total deposit during the study period. The hire purchase loan is Rs.76.03 million in FY 2064/65 and thereafter, it is increasing by 64.61%, 14.11% and 32.62% in FY 2065/66, FY 2066/67 and FY 2067/68 respectively in comparison to previous year. But, the growth rate of hire purchase loan is declined to 6.40% in FY 2068/69. Here, the amount of hire purchase loan increasing in rapidly in FY 2065/66 and FY 2067/68. The amount invested on this sector ranges from Rs.76.03 million to Rs.177.30 million with mean of Rs.142.142 million, S.D. of Rs.40.32 million and C.V. is 28.37%. This shows that there is satisfactory consistency over the study period. Similarly, the total deposit is Rs.922.27 million in FY 2064/65 and then it is increasing in each year up to the FY 2068/69. The total deposit is increasing by 26.68%, 30.72%, 42% and 49% in FY 2065/66, FY 2066/67, FY 2067/68 and FY 2068/69 respectively in comparison to previous year. Hence, the amount of total deposit is increasing rapidly in FY 2067/68 and FY 2068/69. The amount of total deposit ranged from Rs.922.27 million to Rs.3227.56 million with mean of Rs.1801.56 million, S.D. of Rs.826.20 million and C.V. is 45.86%. Since, C.V. is less than mean, it shows that there is satisfactory consistency over the study period. Since, the C.V. of hire purchase loan is less than

the C.V. of total deposit. Therefore, it is concluded that hire purchase loan is more consistent than total deposit. The table 4.9 has been shown in figure 4.9.

Figure 4.9
Proportion of Hire Purchase Loan on Total Deposit



The tabulated data is clearly shown through bar diagram. Figure 4.9 shows the hire purchase loan and total deposit of OFL in different five years period. OFL has collected Rs.922.27 million on total deposit in FY 2064/65. Likewise, OFL has collected Rs.1168.34 million, Rs.1527.28 million, Rs.2162.35 million and Rs.3227.56 million under different deposits scheme in FY 2065/66, FY 2066/67, FY 2067/68 and 2068/69 respectively. Similarly, OFL has invested Rs.76.03 million on hire purchase loan in FY 2064/65 which was increased to Rs.177.30 million in FY 2068/69.

4.1.10 Hire Purchase Loan to Total Deposit Ratio

The ratio of hire purchase loan to total deposit shows the relationship between the hire purchase loan and total deposit. This ratio indicates percentage of total deposit used in the single investment i.e. hire purchase loan. This ratio is calculated by dividing hire purchase loan by total deposit.

The percentage of hire purchase loan with total deposit in different five years of period is presented in table 4.10.

Table 4.10
Hire Purchase Loan to Total Deposit Ratio

FY	2064/65	2065/66	2066/67	2067/68	2068/69	Mean	S.D.	C.V.
HPLTDR(%)	8.24	10.71	9.35	8.75	5.49	8.50	1.72	20.23

Source: Adopted and calculated from various annual reports of OFL.

Table 4.10 reveals that hire purchase loan to total deposit ratio of OFL is fluctuating during the study period. This ratio is highest (10.71%) in FY 2065/66 and lowest (5.49%) in FY 2068/69. The mean of the ratio is 8.50% and S.D. of the ratio during the study period is 1.72%. The C.V. is 20.23% which is more than mean. Therefore, it can be concluded that the ratio is more variable during the study period. The tabulated data is clearly shown in figure 4.10.

Figure 4.10
Hire Purchase Loan to Total Deposit Ratio

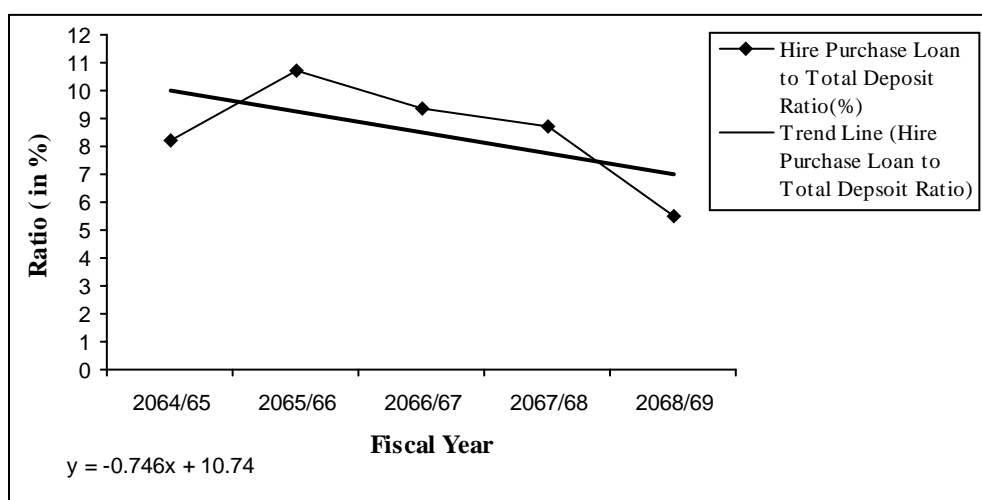


Figure 4.10 depicts the increasing and decreasing trend of hire purchase loan to total deposit ratio of OFL in the past five years of study period. As shown in figure the ratio has raised in FY 2065/66 and thereafter, it has been gradually decreasing from FY 2066/67 to FY 2068/69. The observed values of the ratio are fluctuating over the study period. The trend line obtained by least square method indicates that the slope

of the trend line is negative (-0.746). It indicates that the trend of the hire purchase loan to total deposit ratio is declining over the study period.

4.2 Analysis of Sub-Sectoral Investments under Hire Purchase Loan of OFL

OFL has been maintaining two diversified portfolio under hire purchase financing through out the years. They are vehicles and machinery and equipments.

Under vehicles, investment is made on private and public vehicles like motorcycle car, taxi, jeep, van, bus, tractor, etc. The investment is made with or without additional collateral. The maximum exposure is 80% in case of without additional collateral and exposure will rise up to 95% if there is additional collateral. Similarly investment in machines, machinery parts and equipments like heavy machines used in firm and industry, bulldozer, loader, durable household goods and other movable properties, etc. falls under this category. Additional security is most and the maximum exposure is 85%.

However, OFL does not have any different interest schedule for these different categories rather the investment amount fixes the interest rate to be charged. The sectoral investment under hire purchase loan is shown in the table 4.11.

Table 4.11

Sub-Sectoral Investment under Hire Purchase Loan of OFL (Rs. in million)

Fiscal Year	Vehicle		Machinery & Equipment		Hire Purchase Loan Amount	
	Amount(Rs.)	%	Amount(Rs.)	%	Amount(Rs.)	%
2064/65	73.99	97.32	2.04	2.68	76.03	100
2065/66	122.18	97.63	2.97	2.37	125.15	100
2066/67	138.41	96.91	4.41	3.09	142.82	100
2067/68	180.02	95.04	9.39	4.96	189.41	100
2068/69	168.66	95.13	8.64	4.87	177.30	100
Mean	136.652		5.49		142.142	
S.D.	37.5349		2.9850		40.3245	
C.V.	0.2746		0.5437		0.2837	

Source: Adopted and calculated from records of various years of OFL.

The comparative table 4.11 reveals the sectoral loan investment of OFL under hire purchase from the FY 2064/65 to FY 2068/69. Table 4.11 clears that the major portion of hire purchase loan is invested in the category of vehicles followed by machinery and equipment.

Reviewing the sectoral investment pattern in each category from FY 2064/65 to FY 2068/69, it has been found that the amount in every sub-loan category of hire purchase loan i.e. vehicles and machinery and equipment are increasing by Rs.94.67 million and Rs.6.60 million respectively. The variation of vehicles in absolute term is Rs.37.5349 million and it is in relative term of 0.2746. Similarly, an investment in machinery and equipment has the variation in absolute term of Rs.2.9850 million and it is in relative term of 0.5437. Here vehicles category has the lowest variation in relative term i.e. 0.2746 and machinery and equipment has the highest one i.e. 0.5437. The higher value of variation in relative term indicates higher dispersion and lower value of variation signifies the lower deviation in investment of these categories of hire purchase loan. Thus, the investment in the category of machinery and equipment has been changing with higher deviation than that of other investment in the study period. The table 4.11 has been presented in figure 4.11.

Figure 4.11

Sub-Sectoral Investment under Hire Purchase Loan of OFL (Rs. in million)

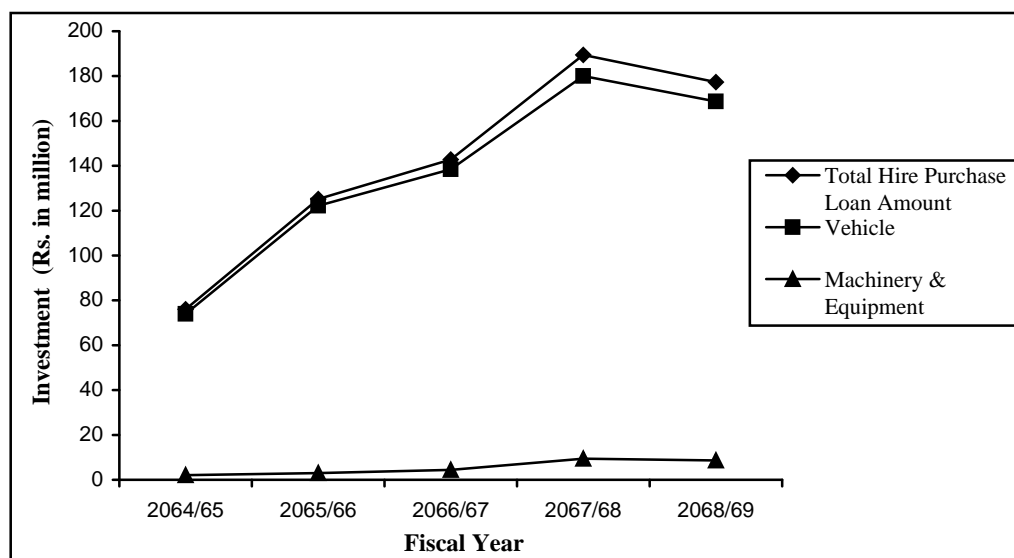


Figure 4.11 shows the trend of different hire purchase sectoral investment of OFL for the past five years i.e. FY 2064/65 to FY 2068/69. The investment in vehicles has fluctuating trend. An investment in vehicles in the FY 2064/065 was Rs.73.99 million which moved up to Rs.180.02 million in the FY 2067/68. But again in the FY 2068/69 the investment on vehicles fell down to 168.66 million. The investment made by OFL in machinery and equipment is less than that of vehicles. Similarly, the investment in machinery has also fluctuating trend. It has maximum investment in FY 2067/68 with Rs.9.39 million as in the particular fiscal year OFL has an investment in the heavy machine for manufacturing. Thus, this reflects that OFL has emphasized in the categories of vehicles and machinery and equipment rather than other category. However, OFL has been giving less priority in hire purchase loan as a whole because as per NRB act, the lesser one flows cash in vehicles the more one is secured.

4.3 Hire Purchase Loan Default Ratio of OFL

It is not possible that always the total loan & advances get recovered with in the schedule period and time framework. Default occurs when debtor has not met his/her legal obligations in accordance to the debt contract or has not made a scheduled payment or has violated a loan covenant of the debt contract. Simply, it is the failure of repaying the loan as per schedule. Being default has serious consequences like the entire loan balance including interest can be immediately due and payable. One will lose his/her deferment options and the particular account might be turned over causing him/her to pay additional charges. In addition, his/her account gets reported to central information bureaus leading your credit rating being damaged.

The problem of loan recovery is the symptom of default. So, recovery is like an appendage to every bank and financial institutions to get rid off from being loan default. Some customers are negligent on their loan to repay. But, sometimes the political situations, natural disasters and other unforeseen situations make customers as default. This sub chapter tries to find out the defaulter position on hire purchase loan invested by OFL.

The defaulter to hire purchase loan ratio is calculated by dividing total defaulter by total hire purchase loan. This ratio indicate the what percentage of total investment on hire purchase loan is made default. The lower the ratio is better. Hence, the

financial institutions try to minimize their default. The defaulter to hire purchase loan ratio of OFL is presented in the table 4.12.

Table 4.12
Hire Purchase Loan Default Ratio of OFL

FY	2064/65	2065/66	2066/67	2067/68	2068/69	Mean	S.D.	C.V.
HPLDR(%)	0.68	0.70	0.73	1.46	0.99	0.912	0.294	32.23

Source: Adopted and calculated from various annual reports of OFL.

Table 4.12 shows the position of default loan on hire purchase loan investment of OFL. In FY 2064/65 OFL had 0.68% default loan on hire purchase loan. Likewise, in FY 2065/66, FY 2066/67 and FY 2067/68 the default loan is increased to 0.70%, 0.73% and 1.46% respectively. The reason behind default rate is due to deficiencies in the recovery and its patterns. But, in the FY 2068/69 default loan is decrease to 0.99% which indicates that the OFL is able to minimize its default rate in the particular fiscal year. The mean of the ratio is 0.912% and S.D. of 0.294%. The C.V. is 32.23%, which indicates that the ratio is more variable and not consistent. The table 4.12 has been shown in the figure 4.12.

Figure 4.12
Hire Purchase Loan Default Ratio of OFL

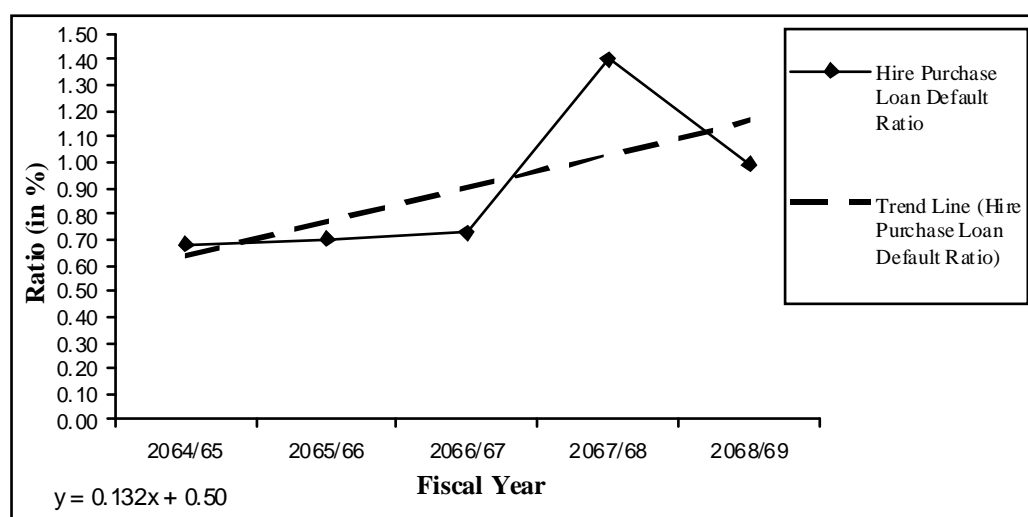


Figure 4.12 shows the default problem faced by OFL on hire purchase loan invested in different five years period. According to above figure it is clearly understood that in fiscal year 2067/68 OFL has high percentage of default loans as compare to the

other year within the study period which is 1.46%. Whereas, in fiscal year 2068/69 OFL is able to reduce its defaulter rate to 0.99% of hire purchase loan. The slope of the trend line determined by the least square method is positive (0.132). It indicates the steady upward movement or increasing trend in hire purchase loan default ratio of OFL during the period of past five years. Therefore, the increasing trend line of hire purchase loan default ratio over the study period indicates that the default hire purchase loans are increasing. It shows that there will be chance of loan default in future.

4.4 Relationship of Hire Purchase Loan with Total Deposit

The Karl Pearson's coefficient of correlation between total deposit and hire purchase loan shows the degree of relationship between these two items. It measures a unit increase or decrease in total deposit impact in the volume of hire purchase loan.

Table 4.13
Relationship of Hire Purchase Loan with Total Deposit

Coefficient of correlation (r)	P.E.(r)	6×P.E.(r)	Remarks
0.8158	0.1009	0.6054	$r > 6 \times P.E.(r)$

Source: Appendix VII

The table 4.13 shows calculated value of coefficient of correlation is 0.8158, which shows there is perfectly positive relationship between total deposit and hire purchase loan. It is significant. Since the value of coefficient of correlation(r) is greater than $6 \times P.E.(r)$ i.e. $0.8158 > 0.6054$ (Table 4.13).

In this case, it is assumed that hire purchase loan is the function of total deposit. Hence, hire purchase loan is the dependent variable and total deposit is the independent variable. It means hire purchase loan depends on total deposit. This can be verified by regression equation of hire purchase loan (Y) on total deposit (X). The regression equation is $\hat{Y} = 70.4399 + 0.0398X$, which shows positive impact of total deposit on hire purchase loan. For the test of significance of parameters a and b, t-test has been used. The calculated value of $t_{(a)} = 2.1807$ which is less than tabulated value of $t = 3.182$ at 5% level of significance with 3 degrees of freedom. Hence, null hypothesis is accepted and alternative hypothesis is rejected, which shows regression

constant a is not significant. It means the intercept term (other factors except total deposit) has no significant impact on hire purchase loan. The calculated value of $t_{(b)}=2.4417$ which is less than tabulated value of $t = 3.182$ at 5% level of significance with 3 degrees of freedom and greater than tabulated value of $t = 2.353$ at 10% level of significance with 3 degrees of freedom. Hence, null hypothesis is rejected and alternative hypothesis is accepted at 10% level of significance, which exhibits that regression coefficient of total deposit is significant. Therefore, it is concluded that total deposit has significant impact on hire purchase loan (Appendix VIII).

4.5 Relationship of Hire Purchase Loan with Total Loan

The Karl Pearson's coefficient of correlation between total loan and hire purchase loan shows the degree of relationship between these two items. It measures a unit increase or decrease in total loan impact in the volume of hire purchase loan.

Table 4.14

Relationship of Hire Purchase Loan with Total Loan

Coefficient of correlation (r)	P.E.(r)	6×P.E.(r)	Remarks
0.8894	0.0630	0.3780	$r > 6 \times P.E.(r)$

Source: Appendix IX

The table 4.14 shows calculated value of coefficient of correlation is 0.8894, which shows there is perfectly positive relationship between total loan and hire purchase loan. It is significant. Since the value of coefficient of correlation(r) is greater than $6 \times P.E.(r)$ i.e. $0.8894 > 0.3780$ (Table 4.14).

In this case, it is assumed that hire purchase loan is the function of total loan. Therefore, hire purchase loan is the dependent variable and total loan is the independent variable. It means hire purchase loan depends on total loan. This can be verified by the regression equation of hire purchase loan (Y) on total loan (X). The regression equation is $\hat{Y} = 38.7630 + 0.06367X$, which shows positive impact of total loan on hire purchase loan. For the significant test of parameters a and b , t-test has been used. The calculated value of $t_{(a)}=1.1941$ which is less than tabulated value of $t_{0.05} = 3.182$ at 5% level of significance with 3 degrees of freedom. Hence, null hypothesis is accepted and alternative hypothesis is rejected, which shows the

regression constant a is not significant. It means the intercept term (other factors except total loan) has no significant impact on hire purchase loan. The calculated value of $t_{(b)}=3.3867$, which is greater than tabulated value of $t_{0.05}=3.182$ at 5% level of significance with 3 degrees of freedom. Hence, null hypothesis is rejected and alternative hypothesis is accepted, which means regression coefficient of total loan is significant. Therefore, it is concluded that total loan has positive impact on hire purchase loan (Appendix X).

4.6 Loan Recovery Procedure and Policy of OFL

Recovery is a process generally associated with loan and advances granted by banks and financial institutions. It is an integral part of credit management directly related with the credit screening process. Better the screening processes lower the probability of Non Performing Loan (NPL) thereby need of lower recovery mechanism and vice-versa. So no matter how good the credit appraisal system is, every financial institution should (FI's) have emplaced an efficient and effective recovery mechanism. FI's may have separate units/personnel to look after the recovery activities and the size of units/personnel is determined by the volume of problematic loans; however this department can not operate smoothly until and unless it gets support from the top level management and other departments. Internationally, FI's use specialized agencies for this kind of jobs which we lack.

The OFL provides some direct and indirect benefits to its customer if they follow the repayment rules and regulation of the company. The regular interest and installment paying customers can get some rebate from the company i.e. one percent on prevailed interest rate. This makes good relations with customers and company. The customer also gets other benefits like other loan facilities, respect in the eyes of company and society as well and decreasing in the economy burden of such customers. On the contrary, if a customer is unable to repay amount of loan in due date, the customer is compelled to pay monthly penalty as punishment. The customers are charged penalty of 30% on their due principals in case of irregular payment of installments. Generally, the laborious and efficient customers are supposed to be winners and the inefficient customers who neglect their duties is penalized. The provision of rebate and penalty system leads to completion among the customer to utilize the amount of loan in most effective manner. All the customers of company are not good so the loan

classification under NPL is based only on overdue loan of previous year to overdue on the current fiscal year.

OFL has its own recovery system and mechanism along with its separate departments. Three staffs are employed on this department for the complete monitoring accounts, process and performances of customers'. A complete securitization of the loan is done at certain intervals to ensure that the loans are invested in the right project, business and the repayments are regular there by the rate of NPL is less. NPLs' are identified and graded in accordance to customers' account performance. In addition, OFL has its own Loan Recovery Committee that consists of three members of different departments as a whole. The General Manager (GM) of OFL is the chairperson of the committee whilst head of loan/marketing department and head of account department are the other two members. The Loan Recovery Department takes the following actions to the customers:

- a. **First reminder call:** This is the very first initial step where the delay in the payment of the installment of any client is immediately followed by a call as a gentle reminder. For the process, a staff from the recovery department has been assigned.
- b. **Personal visit:** The second step is followed by the personal visit. It's a kind of informal visit in which one or two staffs from the credit department visit the loanee who fails to provide strong conviction on the time of first call. Face to face interactions sometimes help to find out the real causes behind the delay in payment of installment.
- c. **Series of formal letter:** Negligence by a particular customer on time to time call and regular visits is now followed by a formal step. This is a crucial step as customers' integrity is now challenged by an organization. The following steps are initiated,
 -) As a first formal letter, 35 days official letter is either submitted or dispatched to the client in which 35 days time duration is provided to pay the dues principal and accrued interest
 -) On the incapability of the client to clear out all the dues within the time frame provided, the next step initiated is a submission of second letter in which 15 days time duration is further extended to clear all the due principals and interests.

) The first and second letter is immediately followed by the third letter in which seven days letter is provided to the client according to which the clients then have only seven days to clear all the dues. A copy is dispatched to the guarantors stating its consequences as well.

d. Publish of notice on the national newspaper: The clients who still fail to either clear all the dues or provide strong convictions now are almost declared as the defaulters. For these defaulters a strong action ought to be taken. Either a 21 days or 35 days notice is published on local as well as on national newspapers in which these defaulting parties are informed to collect all the dues principals as well as interests to regularize the loan. In this step, the guarantor's names along with the mortgaged collateral details are also published. A copy of newspaper is filed in the respective customers' file and the other is sent to the concerned party. On the capability of theirs to clear the dues and regularize the loan further process is stopped else wise, it is followed immediately by notice of auction.

e. Notice of auction: This step is the crucial of all as it follows a series of legal obligations.

After the 35 days of publishing notice in newspaper, if the concerned party still seems incapable to regularize the loan, OFL is left with no other option than to go for auction process. Where foremost, the property mortgaged in our favor is revalued by listed valuator along with physical inspection by the credit staffs. The report thus obtained is presented to the Credit Committee on the analysis of which gives an authority for auction process.

) The date and the venue for auction procedure is thus finalized which is delegated to the concerned party within the three days of finalization. Company then publishes the notice of auction in national level newspaper after seven days of decision, giving the details of customers, owner of collateral, if the collaterals are of third party and guarantors with their photographs, information about auction place, date, time and details of collaterals.

) If the customer pleads for the additional time for payments of the loan to the BOD through the GM, the company can stop the auction process for some period but not more than six months. The

loan committee can stop the process for maximum six months, but the customer should pay the certain amount of loan in that time. If the customer cannot pay the balance loan amount within the auction stop period, the company again starts auction process and sells the collateral to collect the loan.

- J The bidder has to deposit 10% of bid price. The ownership of the assets would be transferred to him only after paying loan amount and excess amount to the company. But, if no one wants to bid, the auction date will be extended further or the company can own the collateral itself as non-banking assets.
- J Sometimes the value of the property seems incapable to withstand the existing loan amount. In such case, part is collected by auctioning the existing collateral and other sort balance will be collected from the guarantor's assets and vice-versa.

f. Provision on Bank & Financial Institution Debt Recovery Act 2058

If the loan cannot be repaid by the effort of finance company, this will be the last resort that the company can appeal the case to Loan Collection Court of Justice, which is established by Nepal Government with three members from Law, Banking and Accountancy. The application should be given for overdue loan before this Act within three years and after the Act within three years from overdue date. The company should be paid 0.25% claimed amount for loan collection charge with the application. Within 15 days from application, the Court of Justice declares the case. After the order being received from Court, the Loan Collection Officer should collect the loan from loan holder and pays to the bank or FIs for which he could adopt the following procedures:

- a. Adopting or auctioning the pledge secured or other fixed and current assets of proprietor.
- b. Adopting or auctioning the fixed current assets of guaranteed person.
- c. To arrest the keen in jail for the loan holder (proprietor) or guaranteed person according to laws.

After receiving the loan amount, the company should pay one percent of loan to court of justice as a loan collection charges.

4.6 Major Findings of the Study

The major findings of the study on hire purchase financing of OFL are as follows:

- 4.6.1 During the study period, it is found that the highest investment on hire purchase loan of OFL is Rs.189.41 million in FY 2067/68 and the lowest is Rs.76.03 million in FY 2064/65. The trend line estimated by least square method of the total investment on hire purchase loan shows the increasing trend in hire purchase loan during the study period.
- 4.6.2 The proportion of hire purchase loan on total loan is increasing during the study period except FY 2068/69. The amount of hire purchase loan ranges from Rs.76.03 million to Rs.189.41 million with the mean of Rs.142.142 million, S.D. of Rs.40.32 million and C.V. is 28.27%. In the same way, the amount of total loan ranges from Rs.895.83 million to Rs.2521.09 million with the mean of Rs.1623.668 million, S.D. of Rs.563.39 million and C.V. is 34.70%.
- 4.6.3 The hire purchase loan to total loan ratio of OFL is fluctuating during the study period. The ratio ranges from 7.03% to 9.78% with the mean of 8.95% and S.D. of 1.07%. The C.V. is 11.96%, which is more than mean. It shows that the hire purchase loan to total loan ratio is more variable. The slope of the trend line determined by the least square method is negative (-0.301). Hence, it indicates that the trend of the hire purchase loan to total loan ratio is declining over the study period.
- 4.6.4 In the overall ranks to the user categories like businessmen, professionals and households of hire purchase loans of OFL, 61.11% of the respondents gave the first rank to professionals. However, 38.89% of respondents gave the same rank to business class users and the least rank was assigned to the household users.
- 4.6.5 With respect to the factors to be considered on the part of customers while making lending decisions by OFL, 66.67% of respondents gave the first rank to the level of income of the customers. However, 33.33% of the respondents gave same rank to credibility of the customers. The nature of occupation was assigned the second and third rank by 50% of respondents and 16.67% of

respondents assigned the same rank to the credibility as well 88.89% of respondents assigned the fourth rank to the business property. 11.11% of respondents assigned the fourth rank to the guarantor's worthiness and 88.89% of respondents made it to the fifth rank.

- 4.6.6 With respect to the regular payment of installments, 61.11% of the respondents opined that the hire purchase loan users pay their installment in time while 38.89% experienced that they do not pay in time.
- 4.6.7 66.67% of respondents gave the opinion that the first reason for failure in payment of installment is because of business failure i.e. unfavorable business situation while the remaining 33.33% thought that political instability could be the first reason of failure in payment of installment. 44.44% of respondents opined that political instability could be the second reason rather than the first and 77.78% of respondents opined that the intention or negligence on the part of customers is the third reason for failure in payment of installment on hire purchase loan.
- 4.6.8 With respect to the loan recovery procedures followed by OFL, cent percent respondents gave the first rank to the phone call and second rank was given to personal visits by 66.67% respondents. However, 33.33% of respondents gave the same rank to the letter writing and the fourth and final rank assigned to the legal action.
- 4.6.9 The proportion of hire purchase loan on total deposit is fluctuating during the study period. The amount of total deposit collection ranges from Rs.922.27 million to Rs.3227.56 million with the mean of Rs.1801.56 million, S.D. of Rs.826.20 million and C.V. is 45.86%. The growth rate of total deposit collection of OFL is increasing during the study period. In the same way, the growth rate of investment on hire purchase loan is also increasing. But, it is declined by 6.40% in FY 2068/69.
- 4.6.10 The hire purchase loan to total deposit ratio of OFL is fluctuating during the study period. The ratio ranges from 5.49% to 10.71% with mean of 8.50% and S.D. of 1.72%. The C.V. is 20.23%, which is more than mean, which shows that the hire purchase loan to total deposit ratio is more variable. The slope of

the trend line determined by the least square method is negative (-0.746). Hence, it indicates that the trend of the hire purchase loan to total deposit ratio is declining over the study period.

- 4.6.11 Reviewing the sectoral investment pattern under hire purchase loan from FY 2064/65 to FY 2068/69, it is found that the amount in every sub-loan category of hire purchase loan i.e. vehicles and machinery and equipments are increasing by Rs.94.67 million and Rs.6.60 million respectively. The variation of vehicles is found Rs.37.5349 million in absolute term and 0.2746 in relative term. Similarly, an investment on machinery and equipments has the variation of Rs.2.9850 million in absolute term and 0.5437 in relative term. It is found that vehicles have lower variation in relative term i.e. 0.2746 and machinery & equipments have higher one i.e. 0.5437.
- 4.6.12 Hire purchase loan default ratio of OFL is fluctuating during the study period. The hire purchase loan default ratio of OFL is the lowest 0.68% in FY 2064/65. After that it is increasing till FY 2067/68. The hire purchase loan default ratio of OFL is highest 1.16% in FY 2067/68. It is only 0.99% in FY 2068/69. It indicates that OFL is able to reduce the rate of hire purchase loan default rate. The mean of this ratio is 0.912% and S.D. of 0.294%. The C.V. is 32.23%, which is more than mean. It indicates that this ratio is more variable and not consistent. The slope of the trend line determined by the least square method is positive (0.132). This exhibits hire purchase loan default ratio of OFL is slowly in increasing trend during the study period.
- 4.6.13 The independent variable total deposit showed positive correlation with hire purchase loan of OFL. The coefficient of correlation (r) between total deposit and hire purchase loan is 0.8158, which is found to be more than six times of probable error i.e. $r > 6.P.E.(r)$. It shows that there is significant positive relationship between total deposit and hire purchase loan.
- 4.6.14 The estimated regression equation of hire purchase loan on total deposit is $\hat{Y} = 70.4399 + 0.0398X$. Since regression coefficient is 0.0398, which means that one unit (million) increase in total deposit (X) tends to 0.0398 units (million) increase in hire purchase loan (Y). Similarly, the regression coefficient of total deposit on hire purchase loan is found to be positive

(0.0398) and significant, which shows that the total deposit has positive and significant impact on hire purchase loan.

- 4.6.15 The independent variable total loan showed positive correlation with hire purchase loan of OFL. The coefficient of correlation (r) between total deposit and hire purchase loan is 0.8894 which is found to be more than six times of probable error i.e. $r > 6.P.E.(r)$. It shows that there is significant positive relationship between total loan and hire purchase loan.
- 4.6.16 The estimated regression equation of hire purchase loan on total loan is $\hat{Y} = 38.7630 + 0.06367X$. Since regression coefficient is 0.06367, which means that one unit (million) increase in total loan (X) tends to 0.06367 units (million) increase in hire purchase loan (Y). Likewise, the regression coefficient of total loan on hire purchase loan is found to be positive (0.06367) and significant, which exhibits that the total loan has positive and significant impact on hire purchase loan.
- 4.6.17 OFL has its own recovery system and mechanism along with its separate departments consisting three staffs for the complete monitoring accounts, process and performance of customers. The loan recovery committee which encompasses of General Manager as the chairman, Loan/Marketing department and Account department head as other two members have been strongly speculating the recovery process.
- 4.6.18 As a part of recovery and stimulating customers to pay in time, OFL has been waiving one percent of the accrued interest as reward or rebate and to the contrary 30% has been levied for the defaulting parties. The loan recovery procedure and policy as well as the performance of OFL are found to be satisfactory.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This is the concluding of the study. This chapter is divided into three sections- summary, conclusions and recommendations. In the summary part, revision of all four chapters is made. In conclusion part, the result from the research is summer up and at last recommendation is based on the result of study which is made for improving the present situation to the concerned sections as well as for further research.

5.1 Summary

The study is carried out as an academic requirement of Master's degree of business studies, on the topic of hire purchase financing. The present study has been undertaken to examine and analyze the trends in hire purchase financing of Om Finance Limited. In order to build the theoretical foundation and to get the clear destination of the research work, various materials were reviewed. Origin of financial institution in Nepal, development of banking system in Nepal, concept and role of finance company, growth of finance companies in Nepal, Bank and Financial Institution Act 2063, financial products and services and concept of hire purchase were reviewed as conceptual review. Besides this, review of articles, journals and dissertations were included in research review section of the report.

This research covers only five years period from FY 2064/65 to FY 2068/69. It is concerned with the case study of hire purchase financing of Om Finance Limited. The study was designed within the framework of descriptive and analytical research design and so the analysis has been made accordingly. The required data and information were collected from secondary sources. The study has resorted mainly to secondary data that have been first processed and analyzed respectively. In addition with this, primary data were also used whenever necessary. Observations of operating procedures of the company, unstructured interview and structured questionnaire to the concerned people are the sources of primary data. Financial ratio, simple

mathematical and statistical tools have been implied to get the meaningful result of the collected data in this research work.

The analysis of hire purchase financing of OFL reveals that the total investment on hire purchase loan is in increasing trend. The trend line estimated by least square method shows that the hire purchase loan is in increasing trend. The proportion of hire purchase loan on total loan is increasing during the study period. The hire purchase loan to total loan ratio is fluctuating during the study period. The slope of the trend line determined by the least square method is negative, which indicates that the trend of the hire purchase loan to total loan ratio is declining over the study period. In the overall ranks to the user categories like businessmen, professionals, and households, of hire purchase loan of OFL, first rank is given to the professionals users followed by businessmen and households on the second and third respectively. It is found that the level of income is the foremost factor considered on the part of customers while making lending decisions followed by nature of occupation and creditability of customer serially. With respect to the regular payment of installment, more than sixty percent of respondents opined that the users of hire purchase loan pay their installments in time. Sixty-seven percent respondents opined that the first reason for failure in payment of installment is due to the unfavorable business situation and the second one is political instability. Intention or negligence on the part of customers is the other reason of default of due loan. Regarding the legal procedures against the loan defaulters, first, finance company makes a phone call to the hirer. Second, is a personal visit followed by letter writing and legal action in third and fourth respectively. The proportion of hire purchase loan on total deposit is fluctuating during the study period. The growth rate of total deposit collection and hire purchase loan is increasing during the study period. The hire purchase loan to total deposit ratio of OFL is fluctuating during the study period. The slope of the trend line determined by the least square method is negative, which indicates that the trend of the hire purchase loan to total deposit ratio is declining over the study period.

OFL has been diversified hire purchase loan in two sectors like vehicles (i.e. public and private vehicles) and machinery and equipments. The vehicles have the lowest variation and machinery and equipments have the highest variation, which clarifies that the investment in machinery and equipments has been decreasing with higher deviation than that of other investment during the study period. Hire purchase loan

default ratio of OFL is fluctuating during the study period. The slope of the trend line determined by the least square method is positive, which indicates the steady upward movement or increasing trend in hire purchase loan default ratio during the study period. The independent variable total deposit showed positive correlation with hire purchase loan and there is positive significant relationship between total deposit and hire purchase loan and it is. Furthermore, the regression coefficient of total deposit on hire purchase loan is found to be positive and significant, which shows that the total deposit has positive impact on hire purchase loan. Similarly, the independent variable total loan showed positive correlation with hire purchase loan and there is positive significant relationship between total loan and hire purchase loan. Further, the regression coefficient of total loan on hire purchase loan is found to be positive and significant, which shows that the total loan has positive impact on hire purchase loan. OFL has its own recovery system and mechanism along with its separate departments consisting three staffs for the complete monitoring accounts, process and performance of customers. The loan recovery committee which encompasses of General Manager as the chairman, Loan/Marketing department and Account department head as other two members have been strongly speculating the recovery process. As a part of recovery and stimulating customers to pay in time, OFL has been waiving one percent of the accrued interest as reward or rebate and to the contrary 30% has been levied for the defaulting parties.

5.2 Conclusions

Based on analysis and the findings, following conclusions have been drawn as a concluding framework of the study on the hire purchase financing of Om Finance Limited.

- 5.2.1 The increasing trend of hire purchase loan as explained by the least square trend analysis shows that the hire purchase loan investment of the OFL is increasing. This increasing trend of hire purchase loan investment indicates that this sector is popular among the public and OFL has been giving more priority on hire purchase loan.
- 5.2.2 The hire purchase loan is one of the loan sectors of overall loan or total loan. The proportion of hire purchase loan on total loan is increasing during the

study period except last year. It indicates that OFL is trying to increase the proportion of hire purchase loan on total loan.

- 5.2.3 The hire purchase loan to total loan ratio of OFL is fluctuating during the study period. The slope of the trend line of ratio is negative, which indicates that it is continuously declining. Therefore, it can be concluded that the growth rate of hire purchase loan is slower than growth rate of total loan and OFL is focusing more on the other areas of loan.
- 5.2.4 In overall ranks to the users' categories like businessmen, professionals and households of hire purchase loan of OFL, professionals users were given priority by the respondents followed by the businessmen on the second. This shows that professionals' users and businessmen are the major segments, which enjoy the facility of hire purchase loan.
- 5.2.5 While lending hire purchase loan, the level of income is considered the most on the part of customers followed by nature of occupation and creditability of customers on the second and third respectively. This fact indicates that the income level and/or occupation of hirer are the most important factor for granting hire purchase loan. It also indicates that there is no serious attention and system in assessing the guarantor's worthiness of customers.
- 5.2.6 With respect to the payment of hire purchase loan installments, more than sixty percent respondents opined that the users of hire purchase loan pay their installments in time while around thirty-nine percent experienced that they do not pay in time. This fact indicates that the majority of hire purchase loan users pay their installment in time and the least of them don't.
- 5.2.7 With respect to the reason for default on hire purchase loan, business failure is the foremost cause for being irregular on the repayment of loan. The unfavorable business situation confines the customers for being defaulter even though they have no intention to be. Political instability and the negligence or intentions of the customers are the other reasons for being hire purchase loan default. This whole scenario indicates that the main reason of being defaulter is unfavorable business situation followed by political instability and the negligence of the customers to the least.

- 5.2.8 Regarding the legal loan recovery procedures followed by OFL against the loan defaulters, the first priority has always been given to the phone call followed by the personal visits and letter writing on the second and third respectively. Legal action is sought as the final step of loan recovery by OFL being hire purchase loan is one of the most sensitive portfolio which encompasses of seize of the vehicle under legal obligations.
- 5.2.9 The proportion of hire purchase loan on total deposit is increasing during the study period except the last year of the study period. It indicates that OFL is trying to increase the proportion of hire purchase loan on total deposit.
- 5.2.10 The hire purchase loan to total deposit ratio of OFL is not consistent during the study period. The trend of ratio is declining during the study period. Therefore, it can be concluded that the growth rate of hire purchase loan is lower than growth rate of total loan and OFL is focusing more on collecting deposit.
- 5.2.11 While analyzing the sector wise investment of OFL under hire purchase loan, it is found that the major portion of hire purchase loan is invested in the category of vehicles followed by the machinery and equipments. The vehicles have the lower variation and machinery and equipments have the higher one. The higher value of variation in relative term indicates higher deviation and lower value of variation signifies the lower deviation in investment of these categories of hire purchase loan. This shows that the investment in the category of machinery and equipment has been changing with higher deviation than that of vehicles.
- 5.2.12 Hire purchase loan default ratio of OFL is fluctuating during the study period. The increasing trend line of hire purchase loan default ratio over the study period indicates that the default on hire purchase loan is increasing.
- 5.2.13 The correlation between total deposit and hire purchase loan shows that there is a strong positive relation between total deposit and hire purchase loan, which indicates that the change in total deposit does affect the investment on hire purchase loan. The regression coefficient of total deposit on hire purchase

loan shows that there is positive and significant impact of total deposit on hire purchase loan of OFL.

5.2.14 The correlation between total loan and hire purchase loan shows that there is a strong positive relation between total loan and hire purchase loan, which indicates that the change in total loan does affect the investment on hire purchase loan. The regression coefficient of total loan on hire purchase loan shows that there is positive and significant impact of total loan on hire purchase loan of OFL.

5.2.15 OFL has its own recovery system and mechanism along with its separate departments consisting three staffs for the complete monitoring accounts, process and performance of customers. The loan recovery committee which encompasses of General Manager as the chairman, Loan/Marketing department and Account department head as other two members have been strongly speculating the recovery process.

5.2.16 OFL has been waiving one percent of the accrued interest as reward or rebate as a part of recovery and stimulating customers to pay in time and to the contrary 30% has been levied for the defaulting parties. The loan recovery procedure and policy as well as the performance of OFL are found to be satisfactory.

5.3 Recommendations

On the basis of analysis, findings and conclusions, the following recommendation can be forwarded to overcome the weakness, inefficiencies and to improve the present hire purchase financing situation of Om Finance Limited.

5.3.1 The hire purchase loan to total loan ratio of OFL is unstable. The ratio is declining during the study period. Therefore, it is recommended to improve the ratio by adopting the stable policy. To improve the declining trend of ratio, OFL should focus more on investment on hire purchase loan.

5.3.2 The hire purchase loan to total deposit ratio of OFL is not consistent. The ratio is declining during the study period. Therefore, it is recommended to improve

the ratio by adopting the better policy. OFL should mobilize its deposit more on hire purchase loan to make the ratio stable and consistent.

- 5.3.3 Since the average investment under hire purchase loan in vehicle is greater than machinery and equipment with lower variation. It is more consistent. Therefore, it is recommended that more efforts should be made to increase the hire purchase loan investment in vehicle than machinery and equipment.
- 5.3.4 The hire purchase loan default ratio of OFL is unstable during the study period. The increasing trend line of hire purchase loan default ratio indicates that the default rate on hire purchase loan is increasing. To improve the default rate, it is recommended to implement the effective recovery policy like, educating customers properly on the consequences of non-payment of equally monthly installments (EMI) before extending loan.
- 5.3.5 There is strong positive relation between total deposit and hire purchase loan and the regression coefficient of total deposit on hire purchase loan is significant. Therefore, it is recommended to the OFL that both total deposit and hire purchase loan should be increased simultaneously.
- 5.3.6 There is strong positive relation between total deposit and hire purchase loan and the regression coefficient of total deposit on hire purchase loan is significant. Therefore, it is recommended that both total deposit and hire purchase loan should be increased jointly.

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APPENDIX I

List of Class 'C' Licensed Financial Institutions (Finance Companies) Mid-July 2012

Class 'C': Finance Companies			
S.No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Housing Development Finance Co. Ltd.	1992/03/08	Naya Baneshwor, Kathmandu
2	Nepal Finance Ltd.	1993/01/06	Kamaladi, Kathmanu
3	NIDC Capital Markets Ltd.	1993/03/11	Kamalpokhari, Kathmandu
4	Narayani National Finance Ltd.	2009/11/01	Kalikasthan, Kathmanu
5	Nepal Share Markets and Finance Ltd.	1993/10/19	Ramshahapath, Kathmandu
6	Peoples Finance Ltd.	1993/04/15	Mahabauddha, Kathmanu
7	Mercentile Finance Co. Ltd.	1994/11/10	Birgunj, Parsa
8	Kathmandu Finance Ltd.	1994/11/10	Dillibazar, Kathmandu
9	Himalaya Finance Ltd.	1993/11/11	Sundhara, Kathmandu
10	Union Finance Ltd.	1995/12/12	Kamaladi, Kathmandu
11	Gorkha Finance Ltd.	1995/03/12	Hattisar, Kathmandu
12	Paschhimanchal Finance Co. Ltd.	1995/04/09	Butwal, Rupandehi
13	Nepal Housing & Merchant Finance Ltd.	1995/04/11	Dillibazar, Kathmandu
14	Samjhana Finance Co. Ltd. (In the process of liquidation)	1995/05/03	Banepa, Kavre
15	Goodwill Finance Ltd.	1995/05/16	Dillibazar, Kathmandu
16	Siddhartha Finance Ltd.	1995/05/25	Siddarthanagar, Rupendehi
17	Shree Investment & Finance Co. Ltd.	1995/06/01	Dillibazar, Kathmandu
18	Lumbini Finance & Leasing Co. Ltd.	1995/06/26	Thamel, Kathmandu
19	Yeti Finance Ltd.	1995/07/23	Hetauda, Makawanpur
20	International Leasing & Finance Co. Ltd.	1995/10/31	Naya Baneshwor, Kathmandu
21	Mahalaxmi Finance Ltd.	1995/11/26	Putalisadak, Kathmandu
22	Lalitpur Finance Co. Ltd.	1995/12/12	Lalitpur
23	Bhajuratna Finance & Saving Co. Ltd.	1996/01/09	Kantipath, Kathmandu
24	United Finance Co. Ltd.	1996/01/25	Kamaladi, Kathmandu
25	General Finance Ltd.	1996/02/02	Chabahil, Kathmandu
26	Progressive Finance Co. Ltd.	1996/02/26	Newroad, Kathmandu
27	Alpic Everest Finance Ltd.	1996/07/16	Baghbazar, Kathmandu
28	Nava Durga Finance Co. Ltd.	1997/02/09	Itachhe, Bhaktapur
29	Janaki Finance Co. Ltd.	1997/03/07	Janakpurdham, Dhanusha
30	Pokhara Finance Ltd.	1997/03/16	Pokhara, Kaski
31	Central Finance Ltd.	1997/04/14	Kupondole, Lalitpur
32	Premier Finance Co. Ltd.	1997/05/08	Manbhavan, Lalitpur
33	Arun Finance Ltd.	1997/08/17	Dharan, Sunsari
34	Multipurpose Finance Co. Ltd.	1998/03/25	Rajbiraj, Saptari
35	Butwal Finance Ltd.	1998/06/21	Butwal, Rupendehi
36	Shrijana Finance Ltd.	1999/12/14	Biratnagar, Morang
37	Om Finance Ltd.	2000/09/17	Pokhara, Kaski

38	CMB Finance Ltd.	2000/11/20	Jamal, Kathmandu
39	World Merchant Banking & Finance Ltd.	2001/08/10	Hetauda, Makawanpur
40	Capital Merchant Banking & Finance Co. Ltd.	2002/02/01	Battisputali, Kathmandu
41	Crystal Finance Ltd.	2002/02/13	Bag Durbar, Kathmandu
42	Royal Merchant Banking & Finance Ltd.	2002/02/14	Durbarmarg, Kathmandu
43	Guheshwori Merchant Banking & Finance Ltd.	2002/06/13	Pulchowk, Lalitpur
44	Patan Finance Ltd.	2002/06/23	Pulchowk, Lalitpur
45	Fewa Finance Ltd.	2003/04/30	Pokhara, Kaski
46	Everest Finance Ltd.	2003/07/02	Siddharthanagar, Rupandehi
47	Prudential Finance Co. Ltd.	2003/06/06	Dillibazar, Kathmandu
48	ICFC Finance Ltd.	2003/06/15	Bhatbhateni, Kathmandu
49	Sagarmatha Merchant Banking & Finance Ltd.	2005/08/29	Maanvawan, Lalitpur
50	Civil Merchant Bittiya Sanstha Ltd.	2005/09/18	Kuleshwor, Kathmandu
51	Prabhu Finance Co. Ltd.	2006/02/16	Lainchaur, Kathmandu
52	Imperial Finance Ltd.	2006/03/08	Thapathali, Kathmandu
53	Kuber Merchant Finance Ltd.	2006/03/24	Kamalpokhari, Kathmandu
54	Nepal Express Finance Ltd.	2006/05/04	Sundhara, Kathmandu
55	Valley Finance Ltd.	2006/05/11	Maharajganj, Kathmandu
56	Seti Bittiya Sanstha Ltd.	2006/06/07	Tikapur, Kailali
57	Hama Merchant & Finance Ltd.	2006/06/16	Tripureshwor, Kathmandu
58	Reliable Finance Ltd.	2006/09/06	Sundhara, Kathmandu
59	Api Finance Ltd.	2007/04/25	Pokhara, Kaski
60	Nameste Bittiya Sanstha Ltd.	2007/07/07	Ghorahi, Dang
61	Kaski Finance Ltd.	2007/07/30	Pokhara, Kaski
62	Zenith Finance Ltd.	2007/10/08	Newroad, Kathmandu
63	Unique Financial Institution Ltd.	2007/10/12	Putalisadak, Kathmandu
64	Manjushree Financial Institution Ltd.	2007/10/15	New Baneshor, Kathmandu
65	Subhalaxmi Finance Ltd.	2007/11/11	Naxal, Kathmandu
66	Jebils Finance Ltd.	2009/10/28	Newroad, Kathmandu
67	Reliance Finance Ltd.	2009/12/03	Pradarsani Marg, Kathmandu
68	Lotus Investment Finance Ltd.	2010/04/11	Newroad, Kathmandu
69	Baibhab Finance Ltd.	2011/01/24	Naya Baneshwor, Kathmandu
70	Bhaktapur Finance Ltd.	2011/02/08	Chyamsing, Bhaktapur

Source: Nepal Rastra Bank (www.nrb.org.np)

APPENDIX II

QUESTIONNAIRE FOR FINANCE CREDIT STAFFS OF OM FINANCE LIMITED

Name:

Department:

Designation:

Please tick () the appropriate rank you think:

1. The major user of Hire Purchase Loan of OFL.

User of Hire Purchase Loan	Rank		
	1 st	2 nd	3 rd
<input type="checkbox"/> Businessmen			
<input type="checkbox"/> Professionals			
<input type="checkbox"/> Households			

2. The major factor to be considered while making lending decisions on Hire Purchase Loan.

Factors	Rank				
	1 st	2 nd	3 rd	4 th	5 th
<input type="checkbox"/> Level of income of customer					
<input type="checkbox"/> Nature of occupation					
<input type="checkbox"/> Business property					
<input type="checkbox"/> Creditability of customer					
<input type="checkbox"/> Guarantor's worthiness					

3. Do all the customers of Hire Purchase Loan pay their installment in time?

Yes

No

4. The reason for being loan default on Hire Purchase Loan.

Reason	Rank		
	1 st	2 nd	3 rd
J Business failure			
J Political instability			
J Intention /negligence of customer			

5. What is the loan recovery procedure followed by OFL to receive the overdue loan.

Loan recovery procedure	Rank			
	1 st	2 nd	3 rd	4 th
J Phone call				
J Letter writing				
J Personal visits				
J Legal action				

Thank You For Your Valuable Time.

APPENDIX III

Calculation of Mean, Standard Deviation and Coefficient of Variation of Hire Purchase Loan

Let, Hire Purchase Loan = X

Calculation of Mean, Standard Deviation and Coefficient of Variation of Hire Purchase Loan

Fiscal Year	X	X ²
2064/65	76.03	5780.5609
2065/66	125.15	15662.5225
2066/67	142.82	20397.5524
2067/68	189.41	35876.1481
2068/69	177.30	31435.2900
	X= 710.71	X ² =109152.0739

Now,

$$\text{Mean} = \bar{X} = \frac{\sum X}{n} = \frac{710.71}{5} = 142.142$$

$$\begin{aligned} \text{Standard Deviation ()} &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2} \\ &= \sqrt{\frac{109152.0739}{5} - \left(\frac{710.71}{5}\right)^2} \\ &= \sqrt{21830.41478 - 20204.34816} \\ &= \sqrt{1326.06662} \\ &= 40.3245 \end{aligned}$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\% = \frac{40.3245}{142.142} \times 100\% = 28.37\% \text{ or } 0.2837$$

APPENDIX IV

Calculation of Mean, Standard Deviation and Coefficient of Variation of Vehicle

Let, Vehicle = X

Calculation of Mean, Standard Deviation and Coefficient of Variation of Vehicle

Fiscal Year	X	X ²
2064/65	73.99	5474.5201
2065/66	122.18	14927.9524
2066/67	138.41	19157.3281
2067/68	180.02	32407.2004
2068/69	168.66	28446.1956
	X= 683.26	X ² =100413.1966

Now,

$$\text{Mean} = \bar{X} = \frac{\sum X}{n} = \frac{683.26}{5} = 136.652$$

$$\begin{aligned} \text{Standard Deviation ()} &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2} \\ &= \sqrt{\frac{100413.1966}{5} - \left(\frac{683.26}{5}\right)^2} \\ &= \sqrt{20082.63932 - 18673.7691} \\ &= \sqrt{1408.87022} \\ &= 37.5349 \end{aligned}$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\% = \frac{37.5349}{136.652} \times 100\% = 27.46\% \text{ or } 0.2746$$

APPENDIX V

Calculation of Mean, Standard Deviation and Coefficient of Variation of Machinery & Equipment

Let, Machinery & Equipment = X

Calculation of Mean, Standard Deviation and Coefficient of Variation of Machinery & Equipment

Fiscal Year	X	X ²
2064/65	2.04	4.1616
2065/66	2.97	8.8209
2066/67	4.41	19.4481
2067/68	9.39	88.1721
2068/69	8.64	74.6496
	X= 27.45	X ² =195.2523

Now,

$$\text{Mean} = \bar{X} = \frac{\sum X}{n} = \frac{27.45}{5} = 5.49$$

$$\begin{aligned} \text{Standard Deviation ()} &= \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2} \\ &= \sqrt{\frac{195.2523}{5} - \left(\frac{27.45}{5}\right)^2} \\ &= \sqrt{39.05046 - 30.1401} \\ &= \sqrt{8.91036} \\ &= 2.9850 \end{aligned}$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\% = \frac{2.9850}{5.49} \times 100\% = 54.37\% \text{ or } 0.5437$$

APPENDIX VI

Calculation of Hire Purchase Loan Default Ratio

We have,

$$\text{Hire purchase loan default ratio} = \frac{\text{Default hire purchase loan}}{\text{Total hire purchase loan}} \times 100\%$$

By using above formula, we get the ratio as:

Calculation of Hire Purchase Loan Default Ratio

Fiscal Year	Default Hire Purchase Loan	Total Hire Purchase Loan	Hire Purchase Loan Default Ratio
2064/65	0.52	76.03	0.68%
2065/66	0.87	125.15	0.70%
2066/67	1.04	142.82	0.73%
2067/68	2.77	189.41	1.46%
2068/69	1.77	177.30	0.99%
		Mean	0.912
		S.D.	0.294
		C.V.	32.23

APPENDIX VII

Karl Pearson's Coefficient of Correlation between Total Deposit and Hire Purchase Loan

Let, Total Deposit = X and Hire Purchase Loan = Y

Computation of Coefficient of Correlation between Total Deposit and Hire Purchase Loan

Fiscal Year	X	Y	X ²	Y ²	XY
2064/65	922.27	76.03	850581.9529	5780.5609	70120.1881
2065/66	1168.34	125.15	1365018.3556	15662.5225	146217.7510
2066/67	1527.28	142.82	2332584.1984	20397.5524	218126.1296
2067/68	2162.35	189.41	4675757.5225	35876.1481	409570.7135
2068/69	3227.56	177.30	10417143.5536	31435.2900	572246.3880
	X= 9007.8	Y= 710.71	X ² = 19641085.5830	Y ² = 109152.0739	XY= 1416281.1702

Computation of mean

$$\bar{X} = \frac{\sum X}{n} = \frac{9007.8}{5} = 1801.56 \text{ and } \bar{Y} = \frac{\sum Y}{n} = \frac{710.71}{5} = 142.142$$

Calculation of coefficient of correlation

$$r = \frac{\sum XY - n \bar{X} \bar{Y}}{\sqrt{(\sum X^2 - n \bar{X}^2)(\sum Y^2 - n \bar{Y}^2)}}$$

$$= \frac{1416281.1702 - 5 \times 1801.56 \times 142.142}{\sqrt{(19641085.5830 - 5 \times (1801.56)^2)(109152.0739 - 5 \times (142.142)^2)}}$$

$$= \frac{679472.313}{\sqrt{17064967.06 \times 40651.6654}} = \frac{679472.313}{4130.976526 \times 201.6225816} = \frac{679472.313}{832898.1517} = 0.8158$$

Calculation of probable error of coefficient of correlation

$$P.E.(r) = 0.6745 \sqrt{\frac{1 - r^2}{n}}$$

$$= 0.6745 \sqrt{\frac{1 - (0.8158)^2}{5}} = 0.6745 \sqrt{\frac{1 - 0.6655}{2.2360}} = 0.6745 \times 0.1496 = 0.1009$$

$$6.P.E.(r) = 6 \times 0.1009 = 0.6054$$

∴ r > 6.P.E.(r)

APPENDIX VIII

Regression Equation of Hire Purchase Loan on Total Deposit

Let the regression equation of Y on X be

The normal equation is $Y = a + bX$ (i)

To find out the values a and b we have to solve the following two normal equations:

$$Y = na + b \sum X \text{(ii)}$$

$$\sum XY = a \sum X + b \sum X^2 \text{(iii)}$$

Calculation of Regression Equation of Hire Purchase Loan on Total Deposit

Fiscal Year	X	Y	X ²	XY	$\hat{Y} = 70.4399 + 0.0398X$	e ²
2064/65	922.27	76.03	850581.9529	70120.1881	107.15	968.22
2065/66	1168.34	125.15	1365018.3556	146217.7510	116.94	67.41
2066/67	1527.28	142.82	2332584.1984	218126.1296	131.23	134.43
2067/68	2162.35	189.41	4675757.5225	409570.7135	156.50	1082.97
2068/69	3227.56	177.30	10417143.5536	572246.3880	198.90	466.42
	$\sum X = 9007.8$	$\sum Y = 710.71$	$\sum X^2 = 19641085.5830$	$\sum XY = 1416281.1702$	$\hat{Y} = 710.71$	$\sum e^2 = 2719.45$

Substituting the value of n, $\sum X$, $\sum Y$, $\sum X^2$ and $\sum XY$ in equation (ii) and (iii)

We have,

$$710.71 = 5a + 9007.8b \text{(iv)}$$

$$1416281.1702 = 9007.8a + 19641085.5830b \text{(v)}$$

From equation (iv)

$$a = \frac{710.71 - 9007.8b}{5} \text{(vi)}$$

Substituting the value of a in equation (v)

Then,

$$1416281.1702 = 9007.8a + 19641085.5830b$$

$$\text{or, } 1416281.1702 = 9007.8 \times \frac{710.71 - 9007.8b}{5} + 19641085.5830b$$

$$\text{or, } 1416281.1702 = 9007.8 \times (142.142 - 1801.56b) + 19641085.5830b$$

$$\text{or, } 1416281.1702 = 1280386.708 - 16228092.17b + 19641085.5830b$$

$$\text{or, } 3412993.412b = 1416281.1702 - 1280386.708$$

or, $3412993.412b = 135894.4622$

$$\text{or, } b = \frac{135894.4622}{3412993.412} = 0.0398$$

Substituting the value of b in equation (vi)

$$a = \frac{710.71 - 0.0398 \times 358.5104}{5}$$

$$= \frac{710.71 - 14.196}{5}$$

$$= \frac{352.1996}{5}$$

$$a = 70.4399$$

Substituting the value of a and b in equation (i)

$$\hat{Y} = 70.4399 + 0.0398X$$

Therefore, the regression equation of Hire Purchase Loan on Total Deposit is

$$\hat{Y} = 70.4399 + 0.0398X$$

Where, a and b are parameters

a = regression constant and b = regression coefficient

Y is dependent variable (Hire Purchase Loan)

X is independent variable (Total Deposit)

Calculation of standard error and t-statistic of parameters a and b:

$$e^2 = 2719.45$$

$$\frac{e^2}{n} = \frac{2719.45}{5} = 543.89$$

$$\frac{e^2}{n} \times \frac{1}{\sum x^2} = 543.89 \times \frac{1}{906.4833} = 0.6000$$

$$s^2 = \frac{e^2}{n} \times \frac{1}{\sum x^2} = 0.6000$$

$$s = \sqrt{0.6000} = 0.7746$$

Standard error and t-statistic of intercept term 'a'

$$S.E.(a) = \sqrt{\frac{e^2}{n} \times \frac{1}{\sum x^2} \times \frac{(\sum x)^2}{n^2}}$$

$$= \sqrt{0.6000 \times \frac{1}{906.4833} \times \frac{(1801.56)^2}{25}}$$

$$= \sqrt{0.6000 \times 0.001103 \times 162560.5} = \sqrt{1043.3255} = 32.3005$$

$$t_{(a)} = \frac{a}{S.E.(a)} = \frac{70.4399}{32.3005} = 2.1807$$

Standard error and t-statistic of slope of regression line 'b'

$$S.E.(b) = \sqrt{\frac{e^2}{n} \times \frac{1}{\sum x^2} \times \frac{1}{\sum x^2}}$$

$$= \sqrt{0.6000 \times \frac{1}{906.4833} \times \frac{1}{3412993.412}} = \sqrt{0.0002655} = 0.0163$$

$$t_{(b)} = \frac{b}{S.E.(b)} = \frac{0.0398}{0.0163} = 2.4417$$

APPENDIX IX

Karl Pearson's Coefficient of Correlation between Total Loan and Hire Purchase Loan

Let, Total loan = X and Hire purchase loan = Y

Computation of Coefficient of Correlation between Total Loan and Hire Purchase Loan

Fiscal Year	X	Y	X ²	Y ²	XY
2064/65	895.83	76.03	802511.3889	5780.5609	68109.9549
2065/66	1280.28	125.15	1639116.8784	15662.5225	160227.0420
2066/67	1466.74	142.82	2151326.2276	20397.5524	209479.8068
2067/68	1954.40	189.41	3819679.3600	35876.1481	370182.9040
2068/69	2521.09	177.30	6355894.7881	31435.2900	446989.2570
	X= 8118.34	Y= 710.71	X ² = 14768528.6430	Y ² = 109152.0739	XY= 1254988.9647

Computation of mean

$$\bar{X} = \frac{\sum X}{n} = \frac{8118.34}{5} = 1623.668 \quad \text{and} \quad \bar{Y} = \frac{\sum Y}{n} = \frac{710.71}{5} = 142.142$$

Calculation of coefficient of correlation

$$r = \frac{\sum XY - \frac{\sum X \cdot \sum Y}{n}}{\sqrt{\left(\sum X^2 - \frac{(\sum X)^2}{n}\right) \left(\sum Y^2 - \frac{(\sum Y)^2}{n}\right)}}$$

$$= \frac{1254988.9647 - \frac{8118.34 \cdot 710.71}{5}}{\sqrt{\left(14768528.6430 - \frac{(8118.34)^2}{5}\right) \left(109152.0739 - \frac{(710.71)^2}{5}\right)}}$$

$$= \frac{627494.8235}{\sqrt{73842643.22 \cdot 65907444.36}} = \frac{505159.403}{\sqrt{7935198.86 \cdot 40651.6654}} = \frac{505159.403}{2816.948501 \cdot 201.6225816} = \frac{505159.403}{567960.429} = 0.8894$$

Calculation of probable error of coefficient of correlation

$$P.E.(r) = 0.6745 \sqrt{\frac{1 - r^2}{n}}$$

$$= 0.6745 \sqrt{\frac{1 - (0.8894)^2}{5}} = 0.6745 \sqrt{\frac{1 - 0.7910}{5}} = 0.6745 \sqrt{\frac{0.2090}{5}} = 0.6745 \sqrt{0.0418} = 0.6745 \cdot 0.2069 = 0.1395$$

$$6.P.E.(r) = 6 \times 0.0630 = 0.3780$$

∴ r > 6.P.E.(r)

APPENDIX X

Regression Equation of Hire Purchase Loan on Total Loan

Let the regression equation of Y on X be

The normal equation is $Y = a + bX$ (i)

To find out the values a and b we have to solve the following two normal equations:

$$Y = na + b \sum X \text{(ii)}$$

$$\sum XY = a \sum X + b \sum X^2 \text{(iii)}$$

Calculation of Regression Equation of Hire Purchase Loan on Total Loan

Fiscal Year	X	Y	X ²	XY	$\hat{Y} = 38.7630 + 0.06367X$	e ²
2064/65	895.83	76.03	802511.3889	68109.9549	95.80	390.8725
2065/66	1280.28	125.15	1639116.8784	160227.0420	120.28	23.7322
2066/67	1466.74	142.82	2151326.2276	209479.8068	132.15	113.8417
2067/68	1954.40	189.41	3819679.3600	370182.9040	163.20	686.9826
2068/69	2521.09	177.30	6355894.7881	446989.2570	199.28	483.1556
	$\sum X =$ 8118.34	$\sum Y =$ 710.71	$\sum X^2 =$ 14768528.6430	$\sum XY =$ 1254988.9647	$\hat{Y} =$ 710.71	$\sum e^2 =$ 1698.585

Substituting the value of n, $\sum X$, $\sum Y$, $\sum X^2$ and $\sum XY$ in equation (ii) and (iii)

We have,

$$710.71 = 5a + 8118.34b \text{(iv)}$$

$$1254988.9647 = 8118.34a + 14768528.6430b \text{ ... (v)}$$

From equation (iv)

$$a = \frac{710.71 - 8118.34b}{5} \text{(vi)}$$

Substituting the value of a in equation (v)

Then,

$$1254988.9647 = 8118.34a + 14768528.6430b$$

$$\text{or, } 1254988.9647 = 8118.34 \times \frac{710.71 - 8118.34b}{5} + 14768528.6430b$$

$$\text{or, } 1254988.9647 = 8118.34 \times (142.142 - 1623.668b) + 14768528.6430b$$

$$\text{or, } 1254988.9647 = 1153957.084 - 13181488.87b + 14768528.6430b$$

$$\text{or, } 1587039.77b = 1254988.9647 - 1153957.084$$

$$\text{or, } 1587039.77b = 101031.8807$$

$$\text{or, } b = \frac{101031.8807}{1587039.77} = 0.06367$$

Substituting the value of b in equation (vi)

$$a = \frac{710.71 \sum Z 8118.34}{5} - 0.06367 \frac{\sum X}{5}$$

$$= \frac{710.71 \sum Z 516.8947}{5} - \frac{193.8152}{5}$$

$$a = 38.7630$$

Substituting the value of a and b in equation (i)

$$\hat{Y} = 38.7630 + 0.06367X$$

Therefore, the regression equation of Hire Purchase Loan on Total Loan is

$$\hat{Y} = 38.7630 + 0.06367X$$

Where, a and b are parameters

a = regression constant and b = regression coefficient

Y is dependent variable (Hire Purchase Loan)

X is independent variable (Total Loan)

Calculation of standard error and t-statistic of parameters a and b:

$$e^2 = 1698.585$$

$$\frac{e^2}{n} = \frac{1698.585}{5} = 339.717$$

$$\frac{e^2}{n} \frac{1}{\sum X^2} = \frac{339.717}{14768528.6430} = 2.300 \times 10^{-6}$$

$$= 0.0000023$$

Standard error and t-statistic of intercept term 'a'

$$\text{S.E.}(a) = \sqrt{\frac{e^2}{n} \frac{1}{\sum X^2} \frac{1}{\bar{X}^2}} = \sqrt{0.0000023 \frac{1}{(1623.668)^2}}$$

$$= \sqrt{0.0000023 \frac{1}{2636330.000}} = \sqrt{8.72 \times 10^{-11}} = 9.33 \times 10^{-6}$$

$$t_{(a)} = \frac{a}{\text{S.E.}(a)} = \frac{38.7630}{9.33 \times 10^{-6}} = 4154.66$$

Standard error and t-statistic of slope of regression line 'b'

$$\text{S.E.}(b) = \sqrt{\frac{e^2}{n} \frac{1}{\sum X^2}} = \sqrt{0.0000023 \frac{1}{1587039.769}} = \sqrt{1.45 \times 10^{-11}} = 3.80 \times 10^{-6}$$

$$t_{(b)} = \frac{b}{\text{S.E.}(b)} = \frac{0.06367}{3.80 \times 10^{-6}} = 16755.53$$