CHAPTER -I
INTRODUCTION

1.1 Background of the Study

Sound banking system is the crucial means to accelerate the development of a country by strengthening the economic condition in this globalize economy of the twenty-first century. This requires the well-developed corporate culture, proper management of risk and return and healthy competitive environment that facilitate mobilization of small saving in the commercial and industrial sectors that will enhance the economic and social welfare of a country.

Bank is a financial institution, which deals with money by accepting various types of deposits, disbursing loan and rendering various types of financial services. It is the intermediary between the deficit and surplus of the financial resources. Banking when properly organized, aids and facilitates growth on trade and considered not as dealers in money but as the leader of development. Bank are not just the storehouse of the county's wealth but are the reservoirs of resources necessary for economic development (Radheswami and Vasudevan; 1991:4).

In Nepal, banking sector started in 1937 A.D with the establishment of Nepal Bank Ltd. Nepal Rastra Bank, the central bank of Nepal, established in 1957 A.D followed by Rastriya Banijya Bank in 1966 A.D. As Nepalese government took liberal economic policy, joint venture banks started to operate since 1984 A.D with the establishment of Nepal Arab Bank Ltd. Since then, 31 commercial banks have been operating in the country.

The increase in population and their business and present Maoist insurgency in other part of the country has increased the perpetual influx of rural life to the city. Thus influencing the growing demand for better commercial vehicles and own Vehicles in Kathmandu, and their city area has become the central point of commercial activities in Nepal. Thus the various needful factors like; development of planned cities, development of market places has come to be realized. Because of increasing population and lack of time to manage their opportunities in Kathmandu valley more and more vehicles are purchased day to day because of their lack of time.

The commercial banks as corporate bodies i.e. Joining of two or more enterprises with the purpose of carrying out specific operation such as investment in trade, business and industry, consumer loan in the form of negotiation between various groups of industries on trades to achieve mutual exchange of goods and services. They are the modes of trading to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between investors, financial and non-financial institution.

Due to the growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. The main function of commercial bank is to collect deposits from the depositors and to invest on profitable sectors by avoiding risks. These days, the commercial banks are moving towards the micro financing sectors like; Auto loan, Education loan, professional loan and housing loan etc, because of low risk and lack of proper and secured investing sectors. Vehicle finance is one of the important investing sectors of financial institution. These days, most of the commercial banks and other financial institutions are providing vehicle finance, which helps to develop their financial performance in consumer loan.

1.1.1 History of the Banks

The concept of banking had developed from the very beginning of the economic activities. First of all, the arrangement was made to deposit and gold and valuables receipts were issued for such deposits. The depository would have their gold for safekeeping and in turn were given a receipt. Wherever receipt was presented the depositors would return back their gold and valuable offer receiving a small payment as fee.

The word “Bank” is orient in medieval age in 1171 A.D. The “Bank of Vanish” was the 1st bank, which established in Italy. Then after in 1401 AD “Bank of Barcilona” is established in Spain, but the credit of the development of modern banks goes to” The Bank of England “which was established in 1694 AD in London.”

Banking has crossed various phases to come to the modern form. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. Merchants, gold smith and moneylenders are said to be the ancestors of modern banking (Dahal and Dahal; 2002:8).

With the gradual development of bank, its functions are increasing. It only dealt with the exchanges of money in its preliminary phase, but later it accepting deposit from public against interest and providing them in the form of loan to the needy persons was the basic function defined. But now a day, bank covers wide range of activities.

Banking institutions are indispensable for resource mobilization and all round development maintains economic confidence of various segments and extends credit to the people (Grywinshki; 1993:87).

The main objective of the bank is collecting deposit from public in the form of saving and providing medium and short-term loan for the development of industry, trade and business to the ones in need. The bank much return fund to their customers when they demand, so it always gives attention on liquidity position. This is the reason that the commercial banks do not generally provide long-term loan. The development of country’s economy is impossible without expansion of banking function in both rural and urban areas of the country. Development of Trade and Industry is dependent upon the development of banking facilities so it is said that the bank is backbone of economic development in modern society.

Generally the bank refers to commercial bank. Bank collect fund as a saving from public of country and invest in highly return yielding firm. It develops saving habits in people. Commercial bank plays vital role for development of a developing country. Bank provides internal resource for developing country's economy. It collects diversified capital from different parts of country through it's own branches so commercial bank is the heart of trade, industry and business in modern age. Commercial banks earn optimal profit by mobilizing such saving resources properly.

In the Nepalese context, like other countries, goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the Prime Minister Ranodip Singh (1933B.S) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but provided loans to employees and public against the collateral.

The history of development of modern bank started from the establishment of "Nepal Bank Limited" in 1937 A.D (1994 B.S) with put forth effort of government and public, as a commercial bank with 10 million authorized capital. Then the government felt the requirement of central bank and established "Nepal Rastra Bank" in 1956 A.D (2013 B.S) as a central bank under NRB act 2012 B.S. It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. Likewise, rising of banking function get popular and more complicated. Thus NRB suggested for the establishment of another commercial bank and in 1966 A.D (2022 B.S) "Rastriya Banijya Bank" was established as a fully government owned commercial bank. Now it's branches are diversified all over the country.

Apart from this, NIDC was established in 1959 A.D (2016 B.S) and Agricultural Development Bank established in 1967 A.D (2024 B.S). Other development bank and financial institutions were established and continued to establish after the economic liberalization policy adopted by the government.

Only in 1990 A.D after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of NG's to get permission to invest in banking sector from private and foreign investor under commercial bank act 1975 A.D (2031 B.S), different private banks are getting permission to established with the joint venture of other countries. Now a days, there are 32 commercial banks operating in Nepalese financial market.

Nepal Arab Bank Ltd. (Nabil) was the first joint venture bank established in 1984 A.D, joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (recently named Investment Bank) with Indosuez Bank of France and Nepal Grindlays Bank Ltd. (recently named Standard Chartered Bank Nepal Ltd.) with Grindlays Bank of London were established in 1986 A.D. Himalayan Bank Ltd. joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. with State Bank of India were established in 1993 A.D. Everest Bank Ltd. joint ventured with Punjab National Bank, India (early it was joint ventured with United Bank of India, Calcutta), and Nepal Bangladesh Bank Ltd. With IFIC (International Finance Investment and Commercial) Bank of Bangladesh were established in 1993 A.D, Bank of Kathmandu joint ventured with SIAM Commercial Bank Public Co., Thailand was established in 1995 A.D and Nepal Bank of Ceylon joint ventured with Ceylon Bank of Sri-Lanka was established in 1997 A.D(It was already converted into Nepal Credit and Commerce bank).These day bank of Ceylon took out their share and its involvement in the bank.

1.1.2 Present Status of Banking Industry

A sound banking system depends partly on the control exercised by the central bank and to a large extent on trust of its customers or clients (the customers trust that his deposit will be looked after in the best possible way and the funds will be available whenever he wishes to withdraw his money). The banks have a major responsibility to be having like good citizen in a business with profitability as a major consideration.

Now a days, there are 32 commercial banks working and out of them 8 are joint ventured with foreign banks on the other hand a lot of financial co-operatives are also operating.

Besides commercial bank development banks are investing their performance in Nepali banking industry and they also have an important role for the growth of countries economic position. Agricultural Development Bank and Nepal Industrial Development Bank are government owned bank. Other development banks like Nepal Development Bank Ltd, Malika Bikas Bank Ltd, Udyam Bikas Bank Ltd, Nirdhan Utthan Bank Ltd, Rural micro finance development center and Cottage and Small Industries Development Bank Ltd, and other rural development banks are operating in Nepalese banking industry. Now, Credit Development Bank is established and has commenced its service.

Commercial bank collect deposit form public in various forms and lend the same as investment. More over they also provide technical support administrative suggestion cheap remittance of funds, safekeeping of valuables, collection of bills, cheques overdraft facilities to industries and commerce whenever banks lend money they must remember that the source of their fund is customers deposits therefore it is of almost importance that the subsequent lending should be of minimal risk. Banks have often been criticized for not lending more freely. But higher risk of less is the deterring factor on granting advances despite the availability of option of changing higher interest rate.

With the increasing in number of commercial banks competition among them have also became more complex. Doing business with tradition banks used to be so cumbersome that customers had to spend a lot of effort and time in trying to understand the functioning of the bank rather that receiving prompt service. Now the commercial banks (mainly joint venture banks) are trying to introduce and established themselves different by providing special service and attractive schemes. In 1995 AD, Himalayan bank ltd introduce tale-banking service. It gives the new life for banking sector by providing a niche in the competitive financial market.

Like wise, most of other JVB are providing new schemes like insurance to depositors, which is an extra bonus to encourage them to deposit their surplus in such banks. Credit card system is other attractive feature of joint venture banks i.e. Nabil credit card (Master Card, Dinner Card) visa of NGB, credit card of HBL introduced cumulative deposit scheme (CDS) and facilities for the Nepalese living in gulf countries for transfer of their saving arrangements with exchange houses in UAE, Bahrain and Kuwait.

Similarly Standard charter bank, Nabil, Everest banks and all other banks are also providing SCT card which is ATM (automated teller machine) facilities and through this facility the customer can easily withdraw their money at any time and any where it has facilityed ATM machine. Mostly banks have just introduced the mobile banking and Internet banking services to know their customer for statements and balance.

1.1.3 Introduction of Commercial Bank

The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. In the process of such intermediation, commercial bank plays funds raised from different sources into different assets with a prime objective of profit generation an administrative assistance. According to commercial Bank Act 2031, “commercial banks are those banks which are established under this act to perform commercial function.” The commercial banks pool together the savings of the community and arrange for their productive use. They supply financial needs of modern business.

“The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confidence of various segments and extends credit to people.”

These banks are established to improve people’s economic welfare and facility, to provide loan to offer banking services to the people and the country. It provides internal resources for developing countries economic. It collects diversified capital from different parts of country through its own branches.

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.”

The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

1.1.3.1 Function of Commercial Bank

Bank can be defined according to the function they performed. Bank is established with the prime objective of profit maximization. To achieve this, Bank performs various functional activities. Principally, commercial bank accepts deposits, provides loan, primarily to business firms by facilitating the transfer of funds in the economy.

However, in the previous years, banks were viewed as acceptor of deposits and provider of loan but modern commercial banks have to perform for overall development of trade commerce, industry, agriculture, including priority and dependent upon banking. So, we do not have doubt to say that the main objective of commercial banks is to earn profit by performing various functions. Following are the main function performed by the commercial banks.

1) **Accepting Deposits**

The main function of commercial bank is to accept deposits from the public in different types of deposits account. Generally a bank accepts deposit in three forms namely – saving, current and fixed deposits.

a) **Current deposits**

The account in which any amount can be deposited and withdrawn at any time is known as current account. In this account, banks do not give interest to the account holder. These days, the bank under this account as per their own rule has determined minimum limit of deposit.

b) **Saving deposits**

Saving account is managed to collect the small savings of people. This account can be opened with nominal amount. The main purpose of this account is to promote the saving habit of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. Bank provides nominal rate of interest in this account. There are many kinds of saving account, which provides many facilities to their customer. The main purpose of opening those kinds of account is that to increase the account holder or attractive such as no any banking transaction charge, free statement of any time when a/c holder wants, free ATM card, discount on service charge etc.

c) Fixed Deposit

A fixed deposit is one where a customer required keeping a fixed account with the bank for a specific period of time providing higher rate of interest. Amount cannot be withdrawn from bank before the expiry of time. The banker knows the time when the bank is free to make use of this money for granting loans and advance. In case of emergency, he is permitted to borrow money on the security of his fixed deposit, account holder can take loan against the security deposit of it paying 2% extra interest. These days some banks provide all the period of interest in advance when the customer is opening fixed deposit account .It helps their customer to invest their interest amount in another incoming sector.

2) Advancing Loans

The second major function of commercial bank is to provide loans and advances from the money, which receives by the way of deposits. Direct loans and advances are given to all types of persons against the security of movable and immovable properties. The banks in the following forms grant the loans;

a) Overdraft

An overdraft is an arrangement by which the customer is allowed to overdraw his account against some collateral security. The customer is charged interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft sanctioned to him by the bank. It helps the businessman for short-term loan, which is being day-to-day transaction.

b) Cash Credit

Cash credit is provided against the security of goods or personal security. The amount of the loan is credited to the current account of the borrower. The borrower can withdraw money through the cheques according to his requirements. But he has to pays interest on the full loaned amount. These days many banks use credit card to fulfill their customer requirement.

c) Direct Loans

The banks against the security of movable or immovable assets provide direct loans. The borrowers are required to pay interest on the entire amount of loan sanctioned from the date of taking the loan to the date of repayment.

d) Discounting Bills of Exchange

If a creditor holding a bill of exchange wants money immediately, the bank provides him money by discounting bill of exchange. It deposited the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtors who accepted the bill.

3) Agency Service

Banks also provide the number of services on the behalf of its customers. A commercial bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheques, bills, promissory notes, draft, salaries, pensions, dividends, interest etc on behalf of the customers. It also acts as a correspondent or representative of its customers, other banks and financial corporations. These Days banks are provided their customer to pay there repetitive phone bills, mobile bills, and other kinds of bills which is monthly paid by banks, by credited the equal amount of the account holder account. It definitely helps their customer to go for bills payment.

4) Credit creation

The most important function of the commercial banks is to create credit. In order to earn profits, they accept deposits and advance loans by keeping small cash in reserve for day-to-day transactions. When a bank advances a loan, it opens an account to draw money by cheque according to his needs. By providing the loans to different persons or business firm, the bank creates credit.

5) General utilities services

Apart from agency services, the commercial bank also provides some other useful services, which are known as general utility services. They can be explained as follows

a) **Assist in foreign trade**

The Bank assists these traders who are engaged in foreign trade. He discounted the bill of exchange drawn by Nepalese exporter on the foreign importers and enables the exporters to receive money in the home currency. Similarly he also accepts the bills drawn by foreign exporters.

b) Safekeeping of Valuables

The bank receives valuables such as securities jewellery, documents of title to goods etc., from its customers for safe custody. The bank acts as the custodian of the valuables belonging to the customers. He receives them and returns them bank when demanded.

c) Making Venture Capital Loans

Banks have become active in financing the start-up costs of new companies, particularly in high-tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company, and other investors are often brought in to share the risk.

d) Offers Security Brokerage Service

At present, financial marketplace, many banks are striving to become true “financial super market” – offering a sufficiently wide array of financial services to permit customers to meet all of their financial needs at one location. Because of this reason, banks began to market security brokerage. Services offering customers get an opportunity to buy stocks, bonds and other securities without having to go to security dealer.

e) Financial Advising

Bankers have long been asked for financial advised by their customers, mainly when it comes to the use of credit and the saving or investing of funds. Many banks offer very useful financial advisory services, from helping financial to consulting to business managers and checking on the credit standing of firms.

f) Offering Investment Banking and Merchant Banking Services

Today Banks are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing, advice, and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

1.1.4 Profile of the Concerned Banks

As there has been numbers of commercial banks established in Nepal, the research has been taken into consideration of EBL, NCCB and KBL. So, the short introductions of these commercial banks are given as.

1.1.4.1 Everest Bank Ltd.

Everest Bank Ltd. was registered under the company act 1964 in 19th November 1993 (2049/09/03), and started commenced banking transaction in 16th October 1994 (2051/07/01), the promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals is deputed by PNB under this arrangement.

On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintain by the Nepali investor. Nepalese promoter holds 50% and rest 30% held by General public.

The main purpose of EBL is to extend professional banking services to various sectors of the society in Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers;

- Cumulative Deposit Scheme
- Unfix Fixed Deposit
- Required Deposit Plan
- Telegraph Transfer (T.T)
- Letter of Credit
- Drawing Arrangement / SWIFT Transfer
- International Trade and Bank Guarantees
- Everest Remittance
- Foreign Currency Deposits/ Lending
- Trade Finance
- 365 Days Banking
- Debit Card / Credit Card
- ATM (Automated Teller Machine) etc
- Telephonic balance, Mobile Banking, Internet Banking

The ownership of EBL is composed as;

Subscription	**Holding %**
Promoter Share Holders	50%
General Public	30%
Punjab National Banks	20%
Total	**100%**

Everest Bank Ltd. is moving towards to the consumer finance and providing different types of loans like; Housing Loan, Home Equity Loan, Education Loan, Professional

Loan, and Vehicle Loan etc. The authorized capital of the bank was Rs.240 million, issued capital Rs.120 millions and paid-up capital Rs.117.5645 millions in the beginning of 2051/52. The present capital structure of the EBL is shown below;

Share Structure	Amount (Rs.)
Authorized Capital	2000000000
Issued Capital	1514600000
Paid-up Capital	1351600000

Source: - Annual Report of EBL 2012

1.1.4.2 Nepal Credit and Commerce Bank Ltd.

Nepal Credit and Commerce Bank Ltd. is also a joint venture commercial bank with Bank of Ceylon, srilanka. It was established in July 1994 A.D. under the company act 1964 and it commenced its operation on oct.13, 1994 A.D. Bank of Ceylon Ltd. Srilanka manages the bank in accordance with the joint venture and technical services agreement between it and Nepali promoters.

Out of total equity shares of NCCB, 35% shares hold by Bank of Ceylon Ltd., and 65% shares by Nepali promoter, general public, and financial institutions when it was establish. After 5 years Bank of Ceylon sold all their shares of 35% in 2059-5-7B.S. to Nepali promoter, after that it is fully Nepali investor bank. Before its name was Bank of Ceylon and the name was changed in 2058-5-25,its name is Nepal Credit and Commerce Bank Ltd. Now it has 31 branches including main branch (head office) and corporate office in Nepal.

It provides following facilities and services to their customers;

- ATM (Automated Teller Machine)
- ABBS (Any Branch Banking System)
- Agent of different Remittance
- Debit Card
- Credit Card

- Letter of credit
- Internet banking
- Different kind of Loan
- Shareholders Account

NCCB is also started to provide consumer banking services and facilities as per need and requirements of its customers, and started to provide Hire Purchase facilities, Education Loan and Housing Loans at lower interest rate. It provides many kinds of loan facility to their customer.

The ownership of NCCB is composed as;

Subscription	**Holding %**
General Public	62%
Promoter Shareholders	35%
Staff of the bank	3%
Total	**100%**

The present capital structure of the NCCB is presented as below;

Share Structure	**Amount (Rs.)**
Authorized Capital	1600000000
Issued Capital	1311000000
Paid-up Capital	1311000000

Source:- Annual Report of NCCB 2011/12

1.1.4.3 Kumari Bank Ltd.

Kumari Bank Ltd. was established in April 03, 2001 as part of the policy of Nepal Rastra Bank’s liberalization of the Nepalese Banking Industry. It has been established with an objective of providing a complete banking solution to customers backed by its state-of-the art infrastructure. Apart from its regular business loans, KBL is gearing itself up to offer a wide range of consumer banking product and services like; vehicle loan, education loan and home loans etc. At present it has 29 branches including main branch (head office) in Nepal this year. It was established fully the Nepali promoters and public hold investment made by Nepalese investors and its 100% equity.

KBL is providing following facilities and services to their customers;

- Internet Banking
- Electronic Bill Payment System
- Mobile Banking
- Debit Card, Credit Card
- SMS Banking
- Visa Electron Card
- ATM facility

The present capital structure of the KBL is presented as below;

Share Structure	**Amount (Rs.)**
Authorized Capital	1600000000
Issued Capital	1485000000
Paid-up Capital	1485000000

Source:- Annual Report of KBL, 2011/12

1.2 Statement of the Problem

When government introduced the liberalization policy many banks, financial institution and other institution are established rapidly. These days many commercial banks, developments banks and financial institutions are operating their work to assist in the process of economic development in the country. Due to the high competition between the financial institutions, the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. So, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in utilization of collected funds and overall development of economy of the nation.

If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot be able to obtain its target. Fund mobilization policy may differ from one bank to another but there is no optimum utilization of shareholders fund to have greater return in any bank. Nepal Rastra Bank has also played significant role to make commercial bank mobilize their fund in good sector for this purpose; NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of the commercial banks have been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sector.

The unplanned expansion of city, uncontrolled population growth, lack of basic facilities, deteriorating security, raise in nuclear families and working couples have resulted a sharp increase in demand for "Vehicle" like Motorbike, Car, Public Vehicle. But, the continued high rates of population growth, the commercialization and growing regularization of land markets, the Auto supply of mortgage financing, reduced Vehicle purchasing power the rising cost of imported Tax and VAT have made the access to these "Vehicle" very difficult for import tax.

As the major motive of the commercial banks is to earn more profit, they want to disburse the deposits on loans and advance on different sectors. These days, most of the commercial banks are moving towards to the consumer financing. Vehicle finance (loan) is one of the most important sectors among the various consumer finances. Bank has to take minimum risk while providing Vehicle loans to the needy people. So, most of the commercial banks have been providing Vehicle finance to their customer. The banks have been facing various problems while providing Vehicle loans to their customers. They must be sucker of their investment so they must insurance all the investment in Vehicles. The present problems related to the Vehicle finance of the various commercial banks are;

1. What is the existing position of Vehicle Loan of sample banks?
2. Is there any trend of Total Loan and Vehicle Loan of sample banks?
3. Is there significant relationship between Total Loan and Vehicle Loan?

1.3 Objectives of the Study

The main objectives of this study is to examine the trend of Total loan and Vehicle loan provided by specific three banks (i.e. EBL, NCCB and KBL). This study is also concerned with whether the banks are adopting efficient Vehicle finance policy or not. The specific objectives related to this study are presented as below:

1. To assess the existing position of Total loan and Vehicle loan of sample banks.
2. To analyze the trend of Total Loan and Vehicle Loan.
3. To evaluate the relationship between Total Loan and Vehicle Loan.

1.4 Significance of the Study

Today Vehicle finance is one of the important financing sectors of the commercial banks in Nepal. In spite of the government policy for promotion of road and city Out side of ring road making sector in five-year plan, the financial institution joining in hands by venturing different Housing schemes out side of ring road. The private developers initiating the construction of different housing projects, people in general are still deprived of the facility to own their houses, little far from the city. So, an independent study in this sector will help people find their way to the solution for their investment for the Vehicle to reach actual time in actual place.

When bank mobilizes its fund to any sectors, it must be consider customer, national and government and as well as its shareholders interest. The significance of the Vehicle finance can be written as the following manner;

1. By the help of this study, general public can know the Vehicle financing activities of the banks.

2. It is also beneficial for the government while formulating policies and rules regarding Vehicle finance.
3. The study of Vehicle finance would provide information to the management of the concern banks that would be helpful to take corrective action in the banks activities.

4. This study provides valuable information that is necessary for the management of the banks, shareholders, general public (depositors, customers, and creditors), and related parties.

1.5 Limitations of the Study

For the completion of this study, some facts are to be considered as the limitations. These are presented as below;

1. This study is based on secondary data. Accuracy depends upon the data collected and provided by the banks and responds.
2. This study has been carried out for the partial fulfillment of master's degree, faculty of management of TU. So the time and resource are major limitations of the study.
3. Only three commercial banks have been selected as sample for the study, i.e. EBL, NCCB and KBL.
4. This study covers only Five yearly data.
5. Non-availability of the various references of sources acts as constraints for the study.
6. Only the Vehicle financing aspect is analyzed. While providing suggestion, other performance of the organizations is fully neglected.

1.6 Organizations of the Study

This study has been organized into five chapters. Chapter one consists of introductory part of the study. The chapter consists of background, statement of problem, objective of the study, significance of the study, limitation of study and organization of study. Chapter two includes the brief review of available literature on related topic. It includes a discussion on the conceptual frame work and review of major studies. Chapter three includes the research methodology employed in the study. This chapter deals with the nature and serious of data research design, population and sample, data collection procedure and method of analysis. Chapter four deals with the presentation and analysis of relevant data with the help of various financial and statistical tool and techniques and major findings. Finally, chapter five incorporates summary, conclusion &

recommendations of the study which are the important aspects to solve the problems associated to the present analysis and offers recommendation for the improvement in future.

CHAPTER- II
REVIEW OF LITERATURE

Review of literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such that all part studies their conclusions and deficiencies may be known and further research can be done.

This chapter is basically concerned / related with review of literature relevant to the topic "A Comparative Study on Vehicle Finance of EBL, NCCB and KBL." Every study is very much based on the past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies. This chapter describes the conceptual framework and highlights the literature that is available in concerned subject.

2.1 Conceptual Framework

Basically, conceptual framework describes the following terms, which are closely related to the research work.

2.1.1 Investment

Investment policy fixes responsibilities for the investment disposition of the banks assets in terms allocating funds for investment and loan and establishing responsibility for day to day management of those assets (Beasley; 1987:124).

An investment is a commitment of money that is accepted to generate additional money. Every investment entails some degree of risk it requires a present certain sacrifice for a future uncertain benefit (Francis; 199:13).

Their investment objective is to increase systematically the individuals wealth defined as asset minus liabilities. The higher the level of desired wealth the higher the must be received. As investor seeking higher return must be willing to take higher level of risk (Cheney and Moses; 1992:13).

Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit. As result investment raises a nation's standard of living.

V.K. Bhalla has given the basic concept of investment in three points. They are as follows;

1. Economic investment that is an economist definition of investment.
2. Investment in a more general or extended sense, which is used by "the man of the street."
3. The sense in which we are going to be very much interested normal financial investment.

From the above definitions it is conclude that investment means use of rupee of amount today by expecting more income in future. If some one invests his/her fund today, he/she expects financial benefits in future from mobilization of their fund. The value of investment in future increases, which can increase their living standard. The commitment takes place at present the future always remains uncertain. The return sometimes may be negative, if investment is made wrongly that's why before investment must be study about the investment sector.

2.2.1 Features of Sound Lending and Investment Policy

Income and profit of the financial institutions like; commercial banks and finance companies depend upon its lending procedure, lending policy, investment policy of collected fund in different securities. The greater the credit credited by the banks higher will be the profitability. Some required features of sound lending policy and investment polices are explained as below;

a) Safety and Security

Financial institutions should inlets their deposit in profitable and secured sectors. They should not invest their fund in securities of those of companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept those securities, which are marketable, durable, profitable and high market price as well as stable. In this case MAST should be applied while making investment on any sector.

Where, M=Marketability

A=Ascertainability

S=Stability

T=Transferability

b) Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks wherever and whenever they require. To show a good current position and maintain the confidence of their account holder that they can receive their deposited amount whenever they want, every firm must keep proper cash balance with them while investing in different securities and granting loan for excess fund.

c) Profitability

To maximize the return on investment and lending position, financial institution must invest their collected fund in proper sectors by accurate balancing their collected fund to liquidity and lending position. Finally they can maximize the volume of their wealth. Their return depends upon the interest rate, volume of loan, its time period and nature of investment on different securities and sectors.

d) Purpose of Loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have bad debts. So they should collect detailed information about the plan and scheme of the borrowing.

e) Legality

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be last.

f) Tangibility

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly does not yield on income a part from intangible securities, which have last their value due to price level inflation.

g) Diversification

A firm can invest its deposit collection in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.1.3 Meaning of Some Important Terminology

Assets

Assets are the valuable and important properties of the firm and represent economic resources. All the assets should be measured in monetary term, which help to earn future benefits to an organization such as; building, debtors, marketable securities, patents, goodwill, etc. In the firms, there may be tangible and intangible assets as well as fixed and current assets to run the activities properly and for the smooth operation.

Liabilities

Liabilities are the amount of debt payable in future by the firm to its creditors. Liabilities represent the obligations to make payments through cash of bank or provide goods and services in future; e.g. creditors, bills payable, loan, outstanding expenses, overdraft etc.

Balance Sheet

Balance sheet is a financial statement, which is prepared at the end of each accounting year, which contains assets liabilities, owner share capital. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, they are; the nature and value of assets, the nature and value of liabilities and the position of capital.

Income Statement

It is a statement, which summarizes and provides the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and selling and distribution of the goods for the particular accounting period which gives the amount of net profit.

Off Balance Sheet Transaction

Off balance sheet transactions are the future agreements concerning with bills purchase, letter of credit and guarantee which are treated as liabilities.

Share

The part of capital owned by a shareholder is called share. These shares are transferable in nature. Thus, any person can be the number of the company by purchasing the certificates of investment on company and could withdraw his/her shares. In Joint Stock Company total amount of capital is divided into the number of shares through which company can collect capital.

Bond

A bond is the source of long term financing or long term promissory note issued by an organization under which borrower agrees to pay interest as well as principle on specific date to the lender. It is of two types; i.e. mortgage bond, and debenture.

Securities

Securities are the main sources of long term financing which involves shares and debentures issued by the company or government and redeemed in future with interest.

Deposits

Financial institutions collect deposits from the customers in various accounts like current account, saving account, and fixed deposit account. Therefore, the sums of money collected by the financial institution from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

Loan and Advances

Loan and advances, and overdraft are the main sources of income for a firm. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdraft will never cross it. Commercial banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs to the banks as home loan, vehicle loan, personal loan and others.

Liquidity Position

It is the states of owing things of value that can easily be changed into cash. Liquid assets determine the liquidity position of the organization and higher the liquidity assets, better would be the liquidity position.

Interest

Interest is that additional source of money of charged on borrowing or paid to someone who borrows money from the banks or other financial institutions or moneylenders. It is an opportunity cast on sacrificing the saving from own state for certain period.

Retained Earning

It is the certain portion of the firm's earnings, which is kept for the future use or contingencies. It is an internal source of financing.

Variance

The square of standard deviation is called variance and it is denoted by 'σ^2'. It is one of the statistical tools, which is used to analyze the data for the study.

Standard Deviation

Standard deviation is the positive square root of the mean of the deviations taken from the arithmetic mean, which measures the variability of a set of observations. It is usually denoted by the 'σ'.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{1}{n}\sum (X - \overline{X})^2}$$

Co-efficient of Variance

The standard deviation is absolute measures of dispersion: where as the coefficient of variation (CV) is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool.

Mathematically,

$$\text{Coefficient of Variance (CV)} = \frac{\pm}{\overline{X}} \times 100$$

Mean

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted. The formula is;

$$X = \frac{\sum X}{N}$$

Correlation

Correlation is one of the statistical tools, which measures the relationship between or among the variables, which does not explain the causes and effects relationship between the variables. It explains that two variables are correlated if the changed in one variable results in a corresponding change in the others. If can be categorized into two groups i.e. Positive correlation and Negative correlation.

2.1.4 Assets and Liabilities of Commercial Banks as per NRB Directives

Balance sheet of a bank mainly comprises of the items as listed below in the assets and the liabilities sides.

A. Assets of a Bank

Brief discussion of the assets of a commercial bank is done hereunder which could be helpful for during the course of the study.

(i) Cash

Cash is the first assist in the portfolio of a commercial bank. Cash is completely liquid from of asset, which refers to cash in hand, and cash with the central bank. Cash is held to meet the demands of the customers. Cash is the primary reserve of the bank and the bank knows by its experience that is must keep a certain percentage of its deposits, liabilities in the form of cash of a commercial bank will be in the form of cash in its vault with central bank and some portion with other commercial banks for their inter bank adjustments. The cash reserve with central bank and other banks are equally good as cash lying in its vault (Vaidya, 1999:78).

The success of a bank depends on the maintenance of adequate cash reserve required to honour the cheques presented by the customers. A bank usually synchronizes the deposits and withdrawals through investigations and research. A commercial bank has to manage these two in such a way that the good banker always keeps an extra amount of cash for the sake of safety. However, the bank must avoid excessive holding of cash since it is an idle assets and do not generate any income.

(ii) Money at Calls and Short notice

The amount of all interest bearing placement with other banks (local or foreign) with maturity period of not-exceeding 7 days with stipulated condition for payment at call or at short notice (48 hours) are exhibited under this head.

(iii) Bills Discounted and Purchased

Commercial banks prefer to invest in bills for several reasons. The bills are negotiable and can be bought and sold easily. Bills may be promissory notes, bills of exchange or treasury bills. Commercial banks prefer to have this type of assets due to its liquid nature. That is they can be easily marketed and they also bring some revenue to the bank. Most of the bills are eligible for rediscount at the central bank. This enhances the liquidity of the bills. They are regarded as ideal bank assets because they satisfy the principles of liquidity, safety and profitability.

(iv) Investments

Investments constitute a banker's third line of defense after cash and bills discounted. Investments yield a higher return than that obtained from liquid assets but is less than loans and advances. Banks invest a large proportion of their funds in government securities and other gilt-edged securities. These securities can be converted into cash easily and without much loss of value. But the banks do not prefer to invest their funds in corporate shares and debentures due to risk involved in them. The commercial banks of Nepal also make considerable amount of investments in government treasury bills and bonds.

(v) Loans and Advances, Case Credits and Overdrafts

Loans and advances are the most profitable of all the assets of all commercial banks. This is the primary source of income and the most profitable of all the assets of the banks. Loans and advances account for the largest willing to lend as much of its funds as possible. But it has to be careful about the safety of such advanced as well. If the bank is too liberal, it may be influenced by bad debts whereas its timidity may fail to obtain adequate returns from the allocated funds for it. In the mean time, they are the least liquid of all the assets. In other words, it is very difficult to realize them at short notice except those, which are repayable on demand. Therefore a bank cannot rely on such funds at the time of emergency.

(vi) Fixed Assets

All assets of long-term nature (fixed) owned by the bank are accounted and exhibited under this head at written down value after deducting the depreciation from the total cost. In case of disposal of asset, sold or written for the purpose of determining profit/loss on such sale or writing off the (fixed) assets, account will be credited with the amount equivalent to the written down value, and the difference in cash receipt will be adjusted to profit & loss a/c.

Fixed assets are the least liquid assets of the bank such as land and building, vehicles, machinery owned by the banks. They cannot be considered as the liquid assets of the banks. Its take time to convert into the liquid assets, so that the bank cannot consider it to being liquid assets of its fixed assets.

(vii) Other Assets

Other assets of the banks include any other tangible and intangible assets, not mentioned above, stationary stock, Accrued interest on Investment, Accrued interest on Loan, Sundry Debtors, Assets-in-transit, Non-Banking Assets, Expenses not written off like prepaid expenses, development etc. which are exhibited under this head.

(viii) Contingent Liabilities

Claims on banks but not accepted by the banks, the amount of rediscounted bills, the amount of letter of credit opened, full value of immature forward exchange contract, the amount of acceptances and endorsements etc. are disclosed under contingent liabilities.

B. Liabilities of Bank

The liabilities of a commercial bank represent the sources of its funds, which are employed by the bank in the ordinary course of its business. The items that appear in the liabilities side of the balance sheet are as follows.

(i) Capital

The authorized capital is the maximum amount of capital that a bank can issue under its memorandum of association. The issued capital is that capital which is issued for public subscription. Subscribed capital may be the whole of issued capital or its part. Called up capital is the amount that the shareholders required to pay. Paid up capital is the actual amount that the shareholders have paid. So the paid up capital is the actual cash capital of the bank. The difference between the called up capital and paid up capital is known as uncalled capital. It is an additional margin of safety for the depositors and creditors of the bank in case of their doubt about the financial situation of the bank. These days all financial institutions issued its capital in total amount of share.

(ii) Reserve fund

It is the presentation of accumulation of profits appropriated over a period of time. The objective of the reserve fund is to meet the unforeseen contingencies. It is not made from the original capital of shareholders but by the profit generated by the bank. Generally the amount of reserve fund is invested in first class securities. At the time of heavy losses by banks, this fund is used. In other words, the figure of the reserve presents an additional security of the banks to their customers. Under this head, general reserve fund or the statutory reserve fund, capital reserve fund, share premium, other reserves and fund and accumulated profit/loss are presented.

(iii) Deposit

This item represents the liability of the bank. Since the deposits are the borrowed amounts form the depositors or form general public, it is the largest portion of liability of the banks. A bank can collect deposits in various forms- savings, time, current or demand deposits etc. Today different types of policy of the withdrawals of money from bank by the depositors. Similarly, different interest rates are entitled for different types of deposits.

Deposits are the main source of fund, which the banks usually use for the generation of profit. Therefore the efficiency for the banks depends on its ability to attract deposits. The capacity of the bank to earn profits depends on the volume and the deposit mix the bank has. These days many financial institutions attract their customer for the prizes and many other facilities. Such as free any branch banking service, free ATM card, account are opening in Rs.1 or Rs. 100, Mahila bachat, Yuba bachat ect. So they have a competition of maximum account holder of their Bank and they collect deposit from these customer.

(iv) Bills Payable

The outstanding amounts pertaining to draft, T.T. and pay orders issued by one branch to another branch of the bank as well as bills drawn on the bank by other local and foreign banks are accounted under this head.

(v) Borrowing form Other Banks

It includes the amount, which a bank has borrowed from other banks during the course of operation. For this the bank pays certain amount of interest to the lending bank.

(vi) Other Liabilities

Other than the capital and liabilities accounts mentioned above, all other liabilities of whatsoever nature, such as pension fund insurance fund, unclaimed dividends, un-expired discounts etc. are included under this heading.

(vii) Profit and Loss Account

It is the balance of profits left after making all adjustment, which also appears, in the liability side of the balance sheet.

2.1.5 Consumer Lending and Borrowing

Among the most important of all financial markets are the markets providing savings instruments and credit to individuals and families. Many financial analysts have referred to the period after II world war as the age of consumer finance of loanable funds. Moreover, the market for consumer financial services is the one market that every one, regardless of profession or social status, will enter at one time or another during his or her lifetime (Rose; 1997:553).

2.1.5.1 Consumers as Lenders of Funds

Each of us is a consumer of goods and services virtually every day of our life. Scarcely a single day passes that we do not enter the marketplace to purchase food, shelter, entertainment and other essentials of modern living. We are also well aware perhaps from personal experience, that consumers often borrow heavily in the financial marketplace to achieve their desired standard of living. The groups of consumers are the most important lenders of funds in the economy. Consumers supply loanable funds, when they purchase financial assets from the other units in the economy.

The most important household financial asset today is pension fund reserve, built up by individual workers to prepare for their retirement. An aging population has shown great concern in recent years that sufficient funds will be available when they retire to sustain their living standards. In second place are holdings of corporate stock (equities) led by a dramatic rise in holdings of shares in mutual funds (investment companies). The recent growth in household’s common stock investment appears to reflect continuing fears about inflation. Then, too many individuals are concerned that, when they reach retirement, social security and other government pension programs will be inadequate to cover spiraling medical expenses and other living costs in their later years.

In third place among household holdings of financial assets are deposits in banks, saving and loan associations, credit unions, and other thrift institutions. The importance of deposits in consumer financial investment is increasing these days. There has also been a significant rise in household investments in small businesses, which are often owned and operated by an individual or by a member of same family.

2.1.5.2 Consumer as Borrowers of funds

It has been noted that consumers provide most of the savings out of which loans are made and financial assets created in the money and capital markets. However, it is also true that consumers are among the most important borrowers in the financial system. The total volume of household debt outstanding is huge in both absolute terms and relative to most other sectors of the economy. However, to judge whether consumer borrowing is really excessive, that debt should be compared to the financial assets consumers hold. These assets, principal payment that comes due on consumer borrowings.

2.1.5.3 Categories of Consumer Borrowing

The range of consumer borrowing needs is enormous loan to the Vehicle sector, support a more diverse group of purchase of goods and services than is true of any other sector of the economy. Consumer borrow long-term loan to finance purchases of durable goods, such as Household, Vehicles and home appliances etc. They usually borrow short term to cover purchases of non-durable goods and services, such as medical care, vaccines, food and clothing. Financial analysts frequently divide the credit extended to consumers into three broad categories.

1. Vehicle Credit, used to support the purchase of new Vehicle, which is private or public use.
2. Installment Credit, used primarily for long term purpose; and
3. Non-installment Credit, used for shorter-term cash needs.

For and away the dominant from of consumer borrowing is aimed at providing shelter for individuals and families through auto loans. The volume of Vehicle credit flowing to

Vehicles has grown rapidly in recent years with the attractiveness of charging interest on Vehicle loan, so vehicle ownership as a taxpayer for a country.

Installment credit is the second major component of consumer debt. Installment debt consists of all consumer liabilities other than Vehicle loan that are relived in two or more consecutive payments usually monthly or quarterly. Lenders in this field extend four major types of installment credit: automobile credit, revolving credit, mobile homes and other consumer installment loans. This kind of credit, including the purchase of Vehicle from different countries, the payment of transportation expenses, the payment of tax and the consolidation of outstanding debt, finances an incredibly wide variety of consumer goods and service.

The final major category of consumer debt is non-installment credit, which is normally paid off in a lump sum. This form of consume credit includes single payment loans, change accounts, and credit for services, such as medical care and utilities. The total amount of non-installment loans outstanding is difficult to estimate because many such loans are made by one individual to another or by department stores, oil and gas companies and commercial banks, however, make a substantial volume of non-installment loans to consumers and are considered the lending lender in this field.

2.1.5.4 Vehicle loan

One new form of consumer borrowing that is closely related to auto credit is Vehicle loan. An auto loan is secured by a borrower’s Vehicle. However many, Vehicle loans consist of a rearranged revolving credit line the borrower can draw on for purchases of any kinds of vehicle, he or she wishes in varying amounts over the certain period of the credit line. The borrowing base usually equals the difference between the appraised market value of the borrower’s vehicle and the unpaid amount of the installment against that vehicle multiplied by a fraction (of 60%).

Vehicle credit has proved to be especially attractive to consumer lending institutions for a variety of reason. These loans tend to have a lower rate of default because borrowers tend to feel more responsible. Moreover the cost of vehicle substantially lower than the cost of a series of short-term loans made to the same customer. In addition, these loans usually carry rates that adjust to the market, whereas, many other consumer loans have fixed interest rates. Finally Vehicle credits help the lender to build a working relationship with a customer better than most other types of consumer loans, creating more opportunities for the lender to sell that customer additional services.

The borrower can repeatedly borrow, repay and borrow again because most Vehicle credit lines are revolving credits. However, if the borrower cannot make the loan payments his or her home may be repossessed and sold to pay back the lender. Many financial experts recommended that consumers use Vehicle credit with caution, particularly when their future employment prospects are uncertain.

2.1.5.5 Consumer Lending Institution

Financial intermediaries-banks, saving and loan associations credit unions, and finance companies-account for most of the loans made to consumer in the economy. Intermediaries also dominate the market for non-installment credit and make the bulk of Vehicle loans. Although each type of financial institution prefers to specialize in a few selected areas of consumer lending, there has been a tendency in recent years for institutions to diversify their lending operations. One important result of this diversification has been to bring all major consumer lenders in to direct competition with each other.

(i) Commercial Banks

Commercial banks are the most important consumer lending institution. Commercial banks approach the consumer in three different ways by direct lending, through purchases of installment paper from merchants, and by making loans to other consumer lending institutions. Roughly half of all bank loans to consumers consist of mortgages to support the purchase, construction or improvement of residential dwellings; the rest consist of installment and non-installment credit to cover purchases of goods and services. In the automobile field, commercial banks usually prefer to make long-term installment loans for Vehicle.

Banks make a wider variety of consumer loans than any other lending institution. They grant almost half of all auto loans extended by financial institutions to consumers each year. However, most bank credit in the auto field is indirect- installment paper purchased from auto dealers-rather than being made directly to the auto-buying consumer. Moreover, bank's leadership in auto lending has been challenged in recent years by finance companies and credit unions. Indeed, in recent years by finance companies and credit unions. Indeed, in many forms of consumer installment credit today, the lead of commercial banks is threatened by challenged from aggressive non-bank lenders who see the consumer market as a key growth area for the future.

(ii) Finance Companies

Finance companies have a long history of lending in the consumer installment field providing funds directly to the consumer through thousands of small loans offices and indirectly by purchasing installment paper from auto and appliance dealers. These active household lenders provide auto loan and credit for home improvements and for the purchase of appliances and furniture. Finance companies often face state-imposed legal limits of the interest rates they can change for household loans and on maximum loan size.

(iii) Other Consumer Lending Institutions

Other Consumer installment lenders include credit unions, saving and loan associations, and saving banks credit unions make a wide variety of loans for such diverse purposes as purchase of automobiles, home repair and more recently mortgage credit for the purchase of new vehicles, homes. Also important in the consumer loan field in recent years have been savings and loans and savings banks, which experienced dramatic growth in consumer lending but more recently have faced much slower growth and even decline due to inadequate capital and the public's fears about the long-run soundness of some of these institutions.

2.1.5.6 Factor Considered in Consumer Loans

Consumer loans are considered the most profitable uses of funds for must financial institutions. There is evidence, however, that such loans usually carry greater risk than most of other kinds of loans and they are most costly to make loan likewise. The lender often can offset these costs by charging higher interest rates. Consumer credit markets in many communities are less competitive than the market for business loans or for marketable securities, giving the lender an advantage.

Making consumer loans is one of the most challenging aspects of modern financial management. It requires not only a thorough knowledge of household financial statements but also an ability to assess the character of the borrower. Over the years, most loan officers have developed decision "rules of thumb" as an aid to processing and evaluating consumer loan applications. The duration of employment of the borrower is often a critical factor, and money institutions deny a loan request if the customer has been employed at his present job for less than a year. And other most important aspect is the adequate collateral for the loan.

The past payment record of a customer usually is the key indicator of character and the likelihood that the loan will be repaid in timely fashion. Many lenders refuse to make loans to consumers who evidence "pyramiding of debt" that is borrowing from one financial institution to pay another. Evidence of sloppy money handling, such as large balances carried on charge accounts or leavy installment payment, is regarded as negative factor in loan application. Loan officers are particularly alert to evidence of a lack of credit integrity as reflected in frequent late payments or actual default on past loans. Regard less of the strength of the borrower's financial position; if the consumer lacks the willingness to repay debt, the lender has made a bad loan.

Most lenders believe that those who own valuable property, such as land or marketable securities are a better risk than those who do not own such property. Moreover, a borrower's chance of getting a loan usually goes up if he or she does other business (such as maintain a deposit) with the lending institution. If more than one member of the family works, this is often viewed as a more favorable factor than if the family depends on one breadwinner who may become ill, die or lose a job. Having a telephone at home is another positive factor in evaluating a loan application because the telephone gives the lender an inexpensive way to contact the borrower. One way to lower the cost of a loan is for the consumer to pledge a bank deposit or other liquid assets as security behind the loan. The disadvantage here is that such security ties up the asset pledged until the loan is repaid.

2.2 Review of Previous Studies

2.2.1 Review of Research and Articles

Study done by the Tej and Karan Enterprises

Tej and Karan Enterprises is one of the pioneers in the field of Vehicle dealer in Nepal. It will be of great importance to put light to the studies undertaken by them.

The Tej and Karan Enterprises were established in March 1996 under the Vehicle companies of Nepal for selling new branded vehicles. Its four founding institutional shareholders signed a memorandum, and subscribed a total of Rs. 42 million in share capital, all of which had already been paid in.

The goal of the Tej and Karan Enterprises has been to become a financially sustainable and efficiently managed Vehicle selling organization. The main objectives of the Tej and Karan Enterprises are

1. To import new branded vehicle and sell them to a customer.
2. To change the old Vehicle to new branded vehicle whichever the customer needed and making financial support from the financial institutions. To expand Tej and karan enterprises operations to other cities in Nepal.
3. To introduce easily Vehicle exchange programs such as auto show programmed.
4. To introduce additional programs to serve a wider range of families.

Initially, Tej and Karan Enterprises offered financial institution implemented a basic lending program to their customer, be called the Experimental Lending Program (ELP).

The ELP was with Rs. 2 million plus in retained earning held by made available about Rs. 10 million to extend the program to other qualified borrowers.

The automobile owner Survey (2010) Studied by the institution revealed that families rely on cash saving as the most important source of funding for the purchase of new branded imported vehicle. Savings as the principal source of funding were almost three times as large as the second most common source the sale of land and properties. Other important sources include loans from employees, sale of ornaments, remittances, the sale of houses and land, sales of old vehicle to buy new vehicle. Bank loans are a most important source these days, however, when added to loans from employers, these two formal sector sources accounted for the funds for Vehicle finance from the financial institutions.

It is rare in Nepal for a family to finance the auto loan from only one of the many sources mentioned. A typical family would use funds from four or five sources only one of which might be an employer or bank loan, with an average of 5 percent of the funding coming from personal savings or the informal sector institutions now involved in providing some of financing institutions.

Loans Power for Vehicle Growth in Kathmandu Valley

For an individual with a regular income, owning a Vehicle is no longer a distant dream in Nepal. Boom in consumer finance in recent years leads to change in urban living patterns and rapid growth in the purchasing power of the middle-class people.

The prolonged conflict in the country still remains as the major hindering factor for long-term project financing, critically increasing credit risks. This has left no choice for commercial banks to seek alternative haven where there is less risk.

Rapid urbanization is what most of commercial banks are cashing in on with products that help meet the need of people. Automobiles and Houses have become two important and viable sectors in which banks are investing money recent figures show that the Vehicle finance, especially in middle class people, is doing very well and easier for them.

Competitive interest rates on Vehicle finance and other loans that cover more than the cost of Vehicles are proving to be an irresistible combination for middle class people with stable earnings. The Equated Monthly Installment (EMI) repayment method with repayment period of up to a maximum of 5 years has also been a driving force.

Between most commercial banks and financial institutions there is a cut-throat competition for this segment of the market, which is ultimately benefiting customers. The competition resulted in cutting down interest rates as well as other features associated with such loans.

Though interest rates vary from bank to bank, the nature of vehicle loan is; common-purchase of a new vehicle, construction of their body, which is suitable, and purchase of other needed materials. Till four to five months bank, private sector banks and financial institution were the only players. But entry of the two largest public sector commercial banks, Nepal Bank Ltd. And Rastriya Banijya Bank, in the consumer-financing sector has added fuel to the fire.

Though investment-wise, rending is not so big, this has certainly helped to ease liquidity as well diversification of banking services, he said, adding that such products have repositioned the bank's image as well. "Banking services are not meant for the elite only. Today, a fast growing mass of middle-class population can not be ignored," Sharma, said.

RBB is offering Vehicle loans at an interest of 7 percent per annum up to a maximum period of 5 years.

Global Bank recently introduced its much-acclaimed scheme, 'Global vehicle Subidha', which the bank claimed, is unprecedented in Nepal. The interest rate of 6.5 percent to 7.5

percent on new vehicle purchase loans, offered by the bank is the lowest one as of how under the vehicle loan scheme.

Kumari Bank is providing up to 90 percent money for purchasing a new vehicle with a maximum loan repayment period is 5 years. The total loan amount ranges from Rs. 0.5 million to Rs. 2.5 million for one vehicle.

Recognizing the value of offering, a wide range of services is provided not only to the corporate but also to individuals. Himalayan Bank Ltd. (HBL) has been aggressively offering various consumer loans as required by individuals, helping people realize their dreams, says Sabina Dangol of HBL.

A according to her, HBL house loan ranges from up to Rs. 2.4 million, the maximum repayment period being 5 years. However, the loan amount could go up depending upon the value of collateral and disposable income of customer.

Lumbini Bank Ltd (LBL) is also eyeing the market and planning to introduce easier Vehicle loans with refined features very soon.

Under the scheme, the bank plans providing loans of up to Rs.2 million for a maximum period of 5 years. The interest rates will be ranging from eight to 10.5 percent for five year repayment period, informed Pradhan, The present boom in coming days, too.

Vehicle in Kathmandu valley will certainly continue to grow, whatever might be the country’s economy, the only different will be its space of driving and parking places.

List of the Main Automobile Dealers in Kathmandu

1. A-One Motors, Balaju.
2. AVCO International (P). Ltd., Nagpokhari.
3. Annapurna Motors, Dharmapath.
4. Arun Intercontinental Traders, Thapathili.
5. Auto Camp, Maitighar.
6. Bijeshwori International, Kamalpokhari.
7. Buddha Automobiles, Kuleshwor.
8. Car Mart (RPM Trading (P). Ltd.), Thapathili
9. Continental Trading Enterprises Pvt. Ltd., Tinkune.
10. Cube Intercontinental Pvt. Ltd., Kamaladi.
11. Dugar Brothers and Sons, Balaju.
12. Hansraj Hulaschand & Co. Pvt. Ltd., Teku
13. Joshi Automobiles, Gongabu.
14. Karan Motors Co. Pvt. Ltd., Thapathali.
15. Kathmandu Tuk Tuk Pvt. Ltd., Gairigaon.
16. Kedia International Pvt.Ltd., Kamalpokhari
17. Lumbani Motors World Pvt. Ltd., Kamalpokhari
18. Maruti Auto Deco., Kuloshewor.
19. Nepal Motor Company Pvt. Ltd., Tripureshwor.
20. Royal Car Canter Pvt. Ltd., Minbhawon.
21. Sipradi Trading Pvt. Ltd., Naikap.
22. Syakar Company Pvt. Ltd., Jyoti Bhawon, Kantipath
23. Tej and Karan Enterprises, Teku road.
24. United Traders Syndicate Pvt. Ltd., Sinamangal.
25. Vijaya Moters Pvt.Ltd.,

Source: - The Connection Yellow Pages, Published on 2012

Vehicle finance – a study undertaken by Department of International Economic and Social Affairs on Vehicle and Economic Adjustment

In the formal sector, an aspect of Vehicle cast that in even more important then its price is the manner in which the price is paid. With this precept in mind, Vehicle finance systems have been viewed in most countries as the key to making conventional Vehicle services. Given the nature of their lending, however such institutions have generally been fragile and selective and in recent years have come under enormous pressures. Many are a virtual causality of crisis generated by external debt burdens, an unfavorable fiscal and monetary environment, and high fluctuating rates of inflation because of consuming maximum fuel for those vehicles and stagnating of declining real Vehicle owner incomes. Although examples exist of Vehicle finance systems data are currently healthy and thriving, that does not appear to be the case for undergoing adjustment policies. The study on Vehicle and Economic Adjustments undertaken by Department if International Economic and Social Affairs, united Nations in the year 1999 indicates the above facts. Third of the most polluted city all over the world. The cause is that small size and lack of road, over traffic jammed, not followed the traffic rules, anywhere parking etc.

The study further shows that in keeping with public sector efforts to reduce domestic deficits, service external debt and limit monetary emission mortgage lending that passes through special circuits on a subsidized basis is at risk of being severely curtailed in many countries. As a consequence although interest rates are low, the availability of mortgage money to lend is generally limited and increasingly rationed in an arbitrary and regressive manner.

Vehicle entitles that draw upon social lifestyle for people and have also experienced severe problems for traveling in recent years. Some of those have been deeply drawn as growing numbers of vehicle for public sector to collect benefits; the first wave of peoples comes of their lifestyle and because of social standard. The losses of roads and bridges made by the government if the problem for the operations through policies of its negative it is so difficult for the government to develop the country.

In more recent years credits have been obtained mainly form multilateral and bilateral agencies. In the 1980s official development assistance for Vehicle and housing related infrastructure project has ranged from $20 billion to $35 billion annually, amounting to approximately 2% of all official external assistance. The United States Agency for International Development (USAID) continues to provide support to road and city planning systems and the International Finance Corporation has recently become involved in the creation of new secondary mortgage facilities for the needed customer.

ICICI Auto Finance

ICICI Auto Finance Company Limited, the fully owned auto loans, company established by ICICI Limited in 1999. ICICI is one of the main institutions, which has established itself as a major player in the field of auto finance. ICICI auto finance, a fully owned subsidiary of ICICI Limited, is a auto finance company registered with the National Auto Bank. ICICI auto loans are available to customers in 67 cities and towns across the India. Loans are offered for the purchase of new Vehicle and recondition vehicles, mostly it provide for the purchase of new car.

Mostly ICICI Bank provides such Indian automobile products and their priority of the Indian product such as TATA, Maruti, Ambassador, Bajaj, Hero Honda, Yamaha, Ford, Leyland, Agriculture uses tractor ect.

Besides ICICI auto finance, company limited has also launched loans for commercial property and is offering loans against existing property. The loans are offered for tenure up to 30 years.

The company has also introduced several customer friendly services such as “Door-step Service”, “Know your loan on phone facility”, “Internet loan form are available”, “ All information are provided in online services” and “ICICI Auto Loan Search”- free registered services. In FY 2009-10, the company sanctioned loans totaling Rs.6749 crore and disbursed Rs. 6277 crore. The company offers the auto loan from 10.75 to 12.50% interest rate to the auto loan borrowers on the basis of five-seven years loan period.

There are very few thesis and research work of the same kind and in same field in Nepal, to knowledge of the researcher, various master level thesis conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. These theses are more or less related to the field of this study. The review and the extract from them are presented below.

2.2.2 Review of Previous Thesis

There are very few thesis and research work of the same kind of and in same field in Nepal, to knowledge of the researcher, various master level thesis conducted in different aspect of commercial banks, such as lending policy, liquidity position, interest rate structure, capital structure investment policy etc. These theses are more or less related to the field of this study. The review and extract form them are presented below.

A study done by Bhattarai (1978) in her thesis entitled *"Lending Policy Commercial Banks in Nepal" of* has made on effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that helps economic development of the people and the country. So, she recommended that bank should give emphasis on efficient utilization of resources.

Pradhan (1980) in his thesis entitled, *"A Study on Investment Policy of Nepal Bank Ltd"* has emphasized that there is a greater relationship between deposits and loans and advances. He can include that though loan and advance as well as deposits is increasing trend, their increase is not in proportionate manner. Immense increase in deposit had led to little increase in loan and advances due to the increase in the interest rates. His recommendation was to great loan and advances without its lengthy process. He has suggested enhancing banking transactions up to rural sector of the kingdom.

Joshi (1982) in his thesis entitled, *"Lending Policy of Commercial Banks in Nepal."* concludes that commercial banks have collected such resources from people but they are far behind in their utilization. Commercial banks in Nepal are still lazy to play an active role to utilize their resources collected from different sector in accordance with the need of the economy.

Study done by Khatiwada (2008) in his thesis entitled, *"Banking loan an Emerging Trend in India"* has made an effort to analyzing the trend of banking loan product offered by Indian commercial banks and evaluating the contribution in Indian economy. He concluded that there is highly positive correlation co-efficient and co- efficient of determination of above 90% between pre capita GDP and banking loan indicated the direct relationship between them. When one Rs. per capita GDP increase, the banking loan player can enhance its banking loan segment and housing finance segment by Rs.3.26 core and Rs.1.36 core respectively. He finds that the banking loan segment has much low level of NPA then banking industry's NPA. Housing finance segment of the banking loan is the most leading segment. This segment contributes to banking loan by more than 40%. He suggests that there is tremendous upwards potential in this segment. The future of banking loan is dependent on technology facilities reduction in transaction cost and provides the ability to do business involutes. New kinds of management skill are required to mange the retail – landing portfolio.

Bakhati (2008) in his thesis entitled, *"A Comparative Study on Housing Finance of Everest Bank, Nepal Bangladesh Bank limited and Kumari Bank limited."* concludes that the proportion of housing loan in total loan and advance for all the banks under study is in increasing trend. Among the sample banks, EBL has disbursed higher amount for housing loan. EBL is the pioneer bank in Nepal which initiates the housing loan scheme in Nepal. He suggests that the growth of housing loan depends upon interest rate, so the sample banks are requested to lower down the invest rate and make the procedure of getting loan easy.

Mahato (2009) in his thesis entitled, *“A comparative study of the financial performance of NABIL & NIBL”* concluded that NABIL is more oriented towards discharging responsibility towards its shareholders than NIBL. More than this, NABIL is found paying more attention towards the attainment of national objectives. NABIL’s participation in the task of economic development with liberal attitude towards the government and being more responsive to the national priorities like branches expansion, ore employment, more resources mobilization etc. so, from the shareholders and government point of view, NABIL is performing much better than NIBL. But it doesn’t mean that NIBL is not performing well. Relatively, NABIL is doing better banking business.

Bhattarai (2009) in her thesis entitled “*Lending Policy of Commercial Banks in Nepal”* has made on effort to examine the lending policy of commercial banks. She has concluded that efficient utilization of resources is more important than collection of the same. Lower investment means lower capital formation that hapless economic development of the people and the country. So, she recommended that bank should give emphasis on efficient utilization of resources.

Pant (2010) in his thesis entitled, *“A Study of Commercial Bank Deposit and its Utilization.”* He made an attempt to highlight the discrepancy between resource collection and research utilization. He concluded that commercial banks failure in resource utilization is due to their lending confined to short term only. He recommended the commercial banks to give emphasis also on long and medium term lending for better utilization of the deposit.

Bohara (2011) in his thesis entitled, *“A comparative study of the financial performance of Nepal Arab Bank Limited and Nepal Indosuez bank Limited”*, concludes that to meet the short term obligations both the banks had been maintained adequate liquidity and utilization of deposit was satisfactory. Both the banks have highly geared capital structure and the capital adequacy ratio of both banks has been maintained in excess then actually required. This study suggested increasing same status of capital structure to reduced financial risks.

Aryal (2011) in his thesis entitled, *"An Analysis of Retail Leading in Market With Special Reference to Everest Bank limited"* concludes that the to get success in competitive banking environment depositors money must be utilized as loan and advance. The largest items of the bank in the assets sides in loan and advances. If it is neglected, it could be the main causes of liquidity Crisis in the banks and one of the main reasons for a banks failure. He recommended that bank should follow liberal lending policy and invests more and more percentage of total deposit in loan and advances and similarly, maintains more stability in the investment policy.

2.3 Concluding Remarks

Today, vehicle loan is the one of the important means of fund utilization in commercial banks. In the last few years some Nepalese banks are adopting the vehicle loan concept to grab the high and middle level consumer and sustain the banks profitability.

Separate vehicle loan is the new topic for the Nepalese researchers. Very few researches have been conducted under this topic. The research has been carried on Indian context but in Nepalese context, only research related to home loan has been done. So the researcher could not find any systematic study carried out on this topic in Nepalese context. This is the research gap of the study.

CHAPTER- III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rational of each steps) to be adopted by a researcher in studying a problem with certain objectives in view (Kothari; 1999:9). Thus the overall approach to the research is presented in this chapter. The main objective of this research work is to evaluate the Vehicle financing procedures adopted by three commercial banks i.e. EBL, NCCB, and KBL, which are selected as sample financing banks.

3.2 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information if to be collected, form which sources and by what procedures (Paul and Donald; 1996:12) Thus a research design is a plan for the collection, presentation, analysis and interpretation of data.

This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. The research examines the facts and postulates in certain formworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendation among them, they are derived with the help of some statistical tools were adopted to evaluate the Vehicle finance of commercial banks. They are EBL, NCCB and KBL inconsideration not only to research about then by also to facilitate among them. In this study the descriptive cum analytical research design has been followed.

3.3 Population and Samples

The term “population” of universe for research means the universe of research study in which the research is based (Wolff and Pant; 2007:75). At present there are 32 commercial banks operating in Nepal and most of their stocks are traded actively in the stock market. Due to the lack of suitable investing opportunity, all banks are involved in Vehicle Finance. So precisely saying, all 32 commercial banks are the population of this study. Among them 3 commercial banks are chosen as sample from total population.

Sampling technique is very much essential for conducting and research. It allows the researcher to make an intensive study of the research problem within the limited time frame. When the study of whole population is not possible, sampling technique is adopted. The ideal sampling represents the whole universe accurately.

For selecting the samples, one commercial bank (EBL) is from joint venture banks and it is pioneer of retail banking and first educational loan provider bank, KBL is the first pure Nepalese promoter bank and it is middle level of ranking of its retail banking and the other bank NCCB is lower level of its ranking of retail banking are taken from all 32 commercials banks. Organizations under study are as follows, whose general introduction and major objectives are presented in chapter one.

- Everest Bank Ltd.
- Nepal Credit and Commerce Bank Ltd.
- Kumari Bank Ltd.

3.4 Sources of Data and Data Collection Procedure

This study is based on secondary data. These data are collected from published sources like; annual reports, balance sheet, prospectus, newspaper, journal, web sites and other sources. The secondary data published on annual reports of concerning organizations, like deposit and loan and advance amount as well as their organizational profits is collected through personal visit of respective organization and their websites too.

3.5 Data Processing and Presentation

The information and data obtained from the different sources are in row form. From that information, direct presentation is not possible. So it is necessary to process data and converts it into required form. After then only, the data are presented for this study. This process is called data processing. For the study, only required data are taken form the secondary source and presented likewise, in some case graphical presentation is also made. For presentation, different tables are used. Likewise, in some case graphical presentation is also made. The calculations that are related to this study are done with the help of scientific calculator as well as computer software program.

3.6 Data Analysis Tools

Analysis and presentation of the data is the core of each and every research work. In order to get the concrete results from this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools are used.

Arithmetic Mean

It is the sum of all the observations divided by the number of observations. In such cases all the items are equally important (Sharma and Chaudhary; 2010:19). As arithmetic mean is most common, popular and widely used tools for data analysis, here in this study also, arithmetic mean is used. It is computed by using following formula.

$$\text{Mean } (x) = \frac{\sum X}{N}$$

Where

X = mean

$\sum X$= sum of all the variable

N = variables involved

Coefficient of Correlation

Using this statistical tool identifies the degree of relationship between two variables. In other words, this tool is used to describe the degree to what extent one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. Correlation analysis enables us in determining the degree and direction of relationship between the variables (Sharma and Chaudhary; 2010:420). Correlation may be positive or negative and range from –1 to +1. Simple correlation between the total loan and advance and housing loans is computed in this thesis. For this research work, following reference is used (Sharma and Chaudhary; 2010:306).

- Correlation may be positive or negative and ranges from –1 to +1.
- When r = +1, there is perfect positive correlation, when r = -1, there is perfect negative correlation and when r=0, there is no correlation and when r<0.5 then there is low degree of correlation.
- When r lies in 0.7 to 0.999 (or -0.7 to –0.999), there is high degree of positive (or negative) correlation.
- When r lies in 0.5 to 0.699, there is a moderate degree of correlation.

The simple correlation coefficient, r is calculated by using following formula.

$$\text{Simple Correlation Coefficient (r)} = \frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣX^2 = Sum of the square of observation in series in X

ΣY^2 = Sum of the square of observation in series in Y

ΣXY = Sum of the product of the observations in series X and series Y

A convenient and useful way of interpretation of the value of coefficient of correlation between two variables is to use the square of coefficient of determination (r^2). If the value of coefficient of correlation, r=0.90, then the coefficient of determination, r^2=0.81, which means that 81% of the total variation in the value of the dependent variable has been explained by the change in the value of independent variable. It is must easier to understand the meaning of r^2 than r and therefore, coefficient of determination is preferred while presenting the result of correlation analysis.

Trend Analysis

The statistical test used in this study, which describes the trend of any variables whether it increases or decreases with passage of time. The formula of least square method is,

Yc = a + bx

Where, a = $\frac{\Sigma y}{n}$

b = $\frac{\Sigma xy}{\Sigma x^2}$

Here, Yc is used to designate the trend value to distinguish from the actual value. a is the Yc intercept as the computed trend figure of the trend line or the amount of change in Y variable, that is associated with a change of one unit on X variable represents the time.

Probable Error (P.E) of Correlation coefficient

Probable error is an old measure of ascertaining the reliability of the value of Pearsonian coefficient of correlation. It depends up on the condition of random sampling methodology.

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

Where, $\frac{1-r^2}{\sqrt{n}}$ = Standard error of the coefficient of correlation.

The reason for testing the factor 0.6745 is that in a distribution 50% of the observation lies in the range $\mu \pm 0.6745$.

The probable error is used to rest whether the calculated value of sample correlation coefficient is significant or not. A few rules for the interpretation of the significance of correlation coefficient are as follows;

1) If $r <$ P.E.(r) is not significant (i.e. insignificant)
2) If $r >$ P.E. (r), then is definitely significant.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, data collected from the secondary sources are presented and analyzed by using the statistical tools and techniques. The analysis is fully based on secondary data available and data are presented in tables, graphs, and charts according to need. The available data are analyzed and interpreted so that the Vehicle finance of banks can be evaluated easily. To evaluate the Vehicle finance of EBL, KBL and NCCB, trend analysis and correlation analysis is used in this study.

4.2 Analysis of Vehicle Finance Scheme and Features

In this section, detail study is made about the Vehicle finance scheme and its features of various banks. For this study only three commercial banks are considered because of various limitations. These banks only provided loan scheme for purchasing of a only brand new vehicles.

4.2.1 Everest Bank Ltd.

Everest Bank Limited is the pioneer in retail banking, which includes auto loan, education loan, travel loan, home loan and consumer products. Vehicle finance scheme was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for Vehicle loan does not have any limitation. In view of customer's convenience, it has modified its scheme regarding the loan amount, the interest rate and loan repayment period. The interest rate has been revised from 13.5% to 16% and the loan amount has been total cost of the Vehicle. The loan repayment period has also been up to 5 years. The financing is provided to uses of Private, Public and commercial Vehicle. It has not any age limit for Vehicle loan.

The features of the scheme for EBL are tabulated in Table. 4.1

Table 4.1

Features of Vehicle Loan Scheme by EBL

S.N	Particular	Features
1	Finance	For the uses of: Private, Public and Commercials automobiles
2	Finance in Dealer	Agreement with automobile dealer and so on
3	Loan Amount	60% to 80% of the cost of Vehicle and balance is down payment
4	Interest Rate	13.5-16 % p.a.
5	Payback Time Period	Maximum up to 5 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan Disburse till date	NRs.49851 Lakhs
8	Loan processing time	With in one week.
9	Date of loan issued	When the dealer provide Vehicle to the Customer
10	Age bar	No limit
11	Authorized capital for Vehicle Loan of the total budget in %	No limit
12	Scheme launched date	April 2001
13	Number of Loan customer till date	4520 (Approximately)

Source: Annual Report of EBL, 2012

4.2.2 Kumari Bank Ltd.

It has been introduced Vehicle loan scheme since mid July 2001 in the market. It has provision to finance only up to 60% of the cost of purchase, which can be garneted for the land/house with in municipal boundaries. To get the Vehicle loan facility from the bank customer needs to provide his or her income by producing reference and guarantee from the owner of the Vehicle. Depending upon the cost of Vehicle for private user customer's income must be need, rather it granted from the organization, the loan amount varies from the cost of Vehicle and is disbursed at a very competitive rate of interest of 14% to 16%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 60 months with a charge of 2% as prepaid amount on the outstanding amount.

KBL has already attracted loan account of 1458 (Approximately) customers till now with the total loan disbursement reaching NRs. 16784.81 Lakhs. The finance is provided to private vehicle, public vehicle and commercial Vehicle and the age limit is 60 years ..within contract period.

The features of the Vehicle loan scheme rendered by KBL are tabulated in table 4.2

Table 4.2
Features of Vehicle Loan Scheme by KBL

S.N	**Particular**	**Features**
1	Finance	For the uses of: Private, Public and Commercial automobile
2	Finance in Vehicle dealer	No
3	Loan Amount	Cost of the Vehicle upto 60%
4	Interest Rate	14-16% P.a.
5	Payback Time Period	Maximum up to 5 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan Disburse till date	NRs. 16784.81 Lakhs
8	Loan Processing time	With in one week
9	Date of Loan issued	When the dealer provide Vehicle
10	Age bar	60 years with in contract period
11	Scheme launched date	August 2001
12	Number of loan customer till date	1458(Approximately)

Source: Annual Report of KBL, 2012

4.2.3 Nepal Credit and Commerce Bank Ltd.

Nepal Credit and Commerce Bank Ltd has also started Vehicle loan scheme for its valued customers. It has been introduced Vehicle finance scheme since 1999 in the market. Before the date, it has provided the auto loan under the private consumer loan. To get the Vehicle loan facilities from the bank, the customer need to produce his or her income by producing reference and guarantee of its land and buildings. Depending upon the customer’s income and need, the banks provide Vehicle loan up 60% to 80% of the purchase cost of Vehicle at a very competitive rate and its mode of payment is equal monthly installment basis.

The features of the Vehicle loan scheme are tabulated in table 4.3.

Table 4.3
Features of Vehicle Loan Scheme by NCCB

S.N	Particular	Features
1	Finance	For the uses of: Private, Public and Organizational Vehicle
2	Finance in Vehicle Dealer	No
3	Loan Amount	Cost of Vehicle upto 80%
4	Interest Rate	14.99-18% P.a.
5	Payback Time Period	Maximum 5 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan disburse till date	NRs. 8922.67 Lakhs
8	Loan Processing time	Within 5 working days
9	Date of loan issued	When the Dealer provided the Vehicle.
10	Age bar	Not consider
11	Scheme launched date	1999
12	Number of loan customer till date	768 (Approximately)

Source: Annual Report of NCCB, 2012

It has already attracted 768 loan customers till now with the total loan disbursement reaching NRs. 8922.67 Lakhs. The finance is provided to private, public Vehicle and commercial vehicle, and the age limit is not consider

4.3 Position of Vehicle Loan

The banks collect the deposit from the customers and they are invested on various sectors. Since past few years, there is lack of secured investing sector due to nation's internal problem. However, Vehicle finance is one of the most popular and secured investing sector. So, most of the banks are attracted towards such financing schemes for their customer by launching different Vehicle finance scheme since last many years. The Vehicle loan position of last few years of EBL, KBL, and NCCB are shown in the table 4.4 below.

Table: 4.4

Position of Vehicle Loan (Rs. In Lakhs)

Years	Vehicle Loan		
	EBL	KBL	NCCB
2063/064	1671	263	4952
2064/065	2149	414	6406
2065/066	3524	523	6739
2066/067	5727	634	6169
2067/068	7855	925	5107
Total	20920	2759	29373

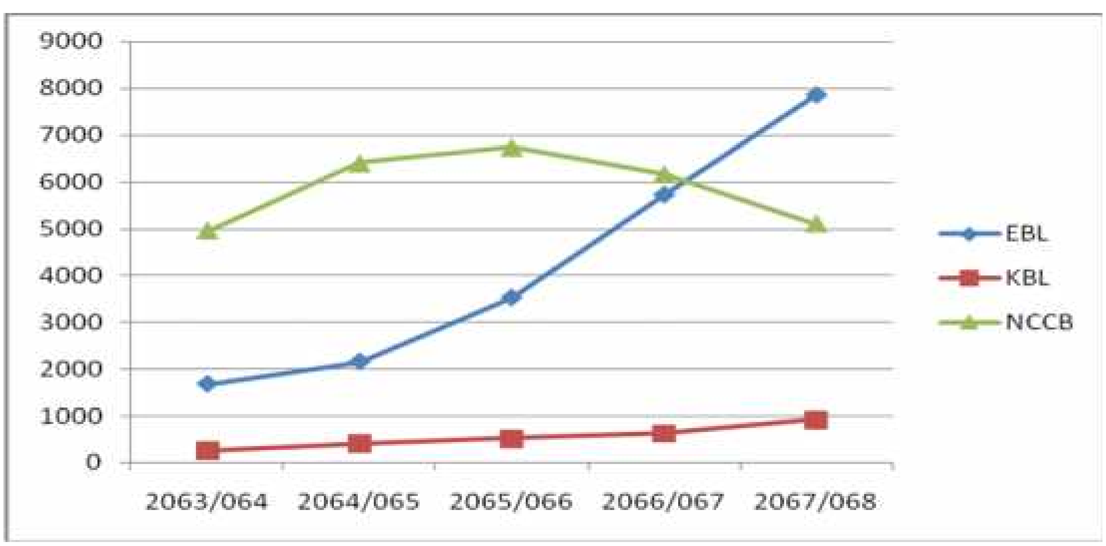
Source: Annual Report of Sample Banks, 2012

From the Table No. 4.4, it is seen that the amount of Vehicle loan for EBL is in increasing trend. The amount is seen to be increased by nearly half within past year yearly periods. Similarly for KBL, the amount is in highly increasing trend past years. During the period of the study, it is in increasing nearly one-third part of the trend has been increased. In same manner, for NCCB, the amount is in fluctuating trend for past five years yearly periods but latter on 2065/066 it is in highest trend after it has decreasing trend.

These all situations can be presented on figure no. 4.1

Figure No. 4.1

Trend of Vehicle Loan for EBL, KBL and NCCB



4.4 Position of Total Loan

The major source of loan is deposit collected by the banks from its valuable customers. The banks provides loan and advances to their customer in various forms like; auto loan, home loan, education loan, and so on. The major activity of the bank is to collect deposit from the customer and generate income in the form of interest by granting loan to the needed person and sectors. Banks follows many strategies to collect deposit from the customer. Sometimes banks provide many different types of prizes to attract many customer to collect deposit with minimum balance of their account which is decided by the bank and other thing banks are attracted their customer from different accounts to collect deposit from different kinds of customer.

Table: 4.5

Position of Total Loan of Banks (Rs. In Lakhs)

Years	Total Loan of Banks		
	EBL	KBL	NCCB
2063/064	50495	21247	33964
2064/065	60720	36979	47173
2065/066	78705	56434	60119
2066/067	101363	70078	58992
2067/068	140419	88398	51946
Total	**431703**	**273136**	**252194**

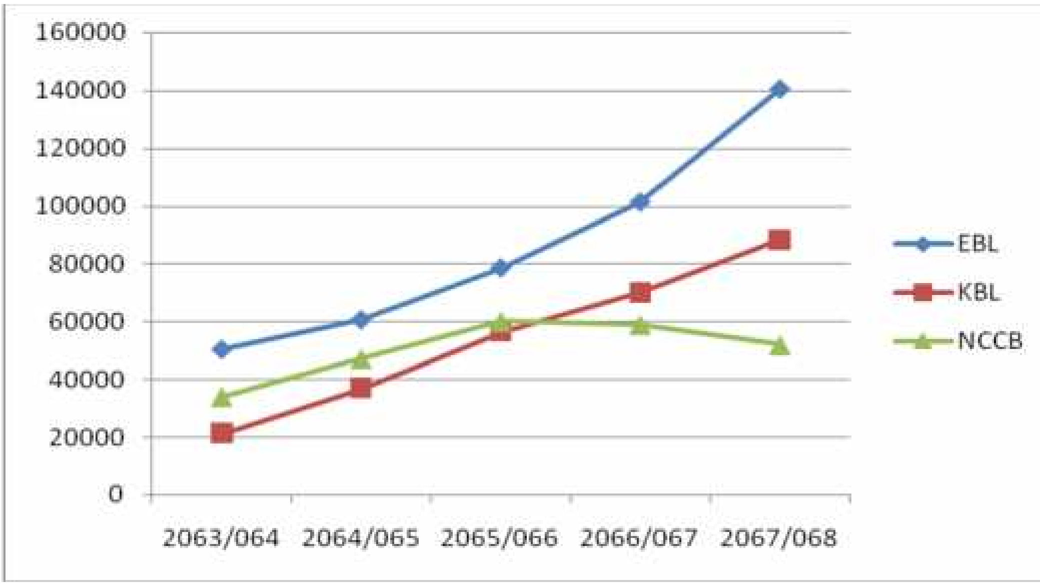
Source: Annual Report of Sample Banks, 2012

From the Table: 4.5, it is seen that the amount of Total loan for EBL is in increasing trend. The amount is seen to be increased by more than one third amount in past five years periods. Similarly for KBL, the amount is in increasing trend and the amount has increased by more than one third times in their five years trend. In the same manner, for NCCB, the amount is in increasing trend for first three years in nearly one-third times but after2065/066 it is in decreasing trend for past two years.

These all events can be present on figure: 4.2

Figure No. 4.2

Trend of Total Loan for EBL, KBL and NCCB



4.5 Proportion of Vehicle Loan on Total loan

One of the main objectives of this study is to know the relationship between Vehicle loan and total loan. In other words, the major motive is to explore to chunk of Vehicle loan out of total loan. Since in past few years, financial institutions are not getting appropriate avenue for investment. So they are forced to search new sectors for investment and ultimately enter into Vehicle finance. This scenario has diverted the most of the invest-able fund of banks to Vehicle sectors. To some extent such finance is good, but large finance on such sector is not good for county's economy because they are non-productive sector. They don't give any contribution to the growth of economy but just increase traffic in city and pollutes the Earth environment. So by this analysis, it is tried to know the trend (increasing or decreasing trend) of Vehicle finance out of total loan.

Table: 4.6

Proportion of Vehicle loan on Total loan of EBL

(Rs. In Lakhs)

year	Vehicle loan(X)	Total loan (Y)	Proportion in % (P)
2063/064	1671	50495	(1671/50495)x 100 = 3.31
2064/065	2149	60720	(2149/60720) x 100 = 3.54
2065/066	3524	78705	(3524/78705) x 100 = 4.48
2066/067	5727	101363	(5727/101363) x 100 =5.65
2067/068	7855	140419	(7855/140419) x 100 = 5.6
	ΣX=20926	ΣY= 431702	ΣP=22.58

Source: Annual Report of EBL, 2012

Mean Proportion ($\overline{p}_{EBL}$) = $\frac{\sum P}{n}$ = $\frac{22.58}{5}$ % = 4.52 %

From the table: 4.6, it is in increasing proportion of Vehicle loan on Total loan of EBL and its mean proportion of five years period is 4.52%.

The mean proportion of Vehicle Loan on Total Loan can be presented in diagram to make clear as following

Figure: 4.3

Mean Proportion of Vehicle Loan on Total Loan of EBL

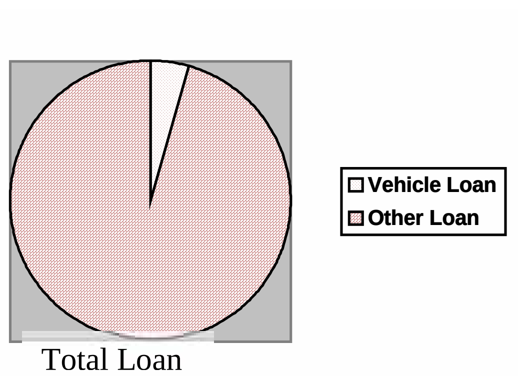


Table: 4.7

Proportion of Vehicle loan on Total loan of KBL

(Rs. In Lakhs)

year	Vehicle loan(X)	Total loan (Y)	Proportion in % (P)
2063/064	263	21247	(263/21247)x 100 = 1.24
2064/065	414	36979	(414/36979) x 100 = 1.12
2065/066	523	56434	(523/56434) x 100 = 0.93
2066/067	634	70078	(634/70078) x 100 =0.91
2067/068	925	88398	(925/88398) x 100 = 1.05
	ΣX=2759	ΣY= 273136	ΣP=5.25

Source: Annual Report of KBL, 2012

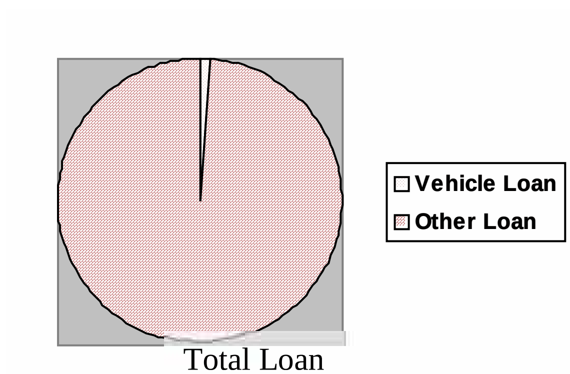
Mean Proportion ($\overline{p}_{KBL}$) = $\frac{\sum P}{n}$ = $\frac{5.25}{5}$% = 1.05 %

From the table: 4.7, it is in fluctuated proportion of Vehicle loan on Total loan of KBL and its mean proportion of five years period is 1.05%.It means that KBL investment in Vehicle finance only of its 1.05% of its total loan.

The mean proportion of Vehicle Loan on Total Loan can be presented in diagram to make clear as following

Figure: 4.4

Mean Proportion of Vehicle Loan on Total Loan of KBL



From the table: 4.8, it is in fluctuated decreasing proportion of Vehicle loan on Total loan of its yearly period of NCCB and its mean proportion of five years period is 11.94%.

Table: 4.8

Proportion of Vehicle loan on Total loan of NCCB

(Rs. In Lakhs)

Year	Vehicle loan(X)	Total loan (Y)	Proportion in % (P)
2063/064	4952	33964	(4952/33964)x 100 = 14.58
2064/065	6406	47173	(6406/47173) x 100 = 13.6
2065/066	6739	60119	(6739/60119) x 100 = 11.21
2066/067	6169	58992	(6169/58992) x 100 = 10.6
2067/068	5107	51946	(5107/51946) x 100 = 9.83
	ΣX=29373	ΣY= 252194	ΣP=59.68

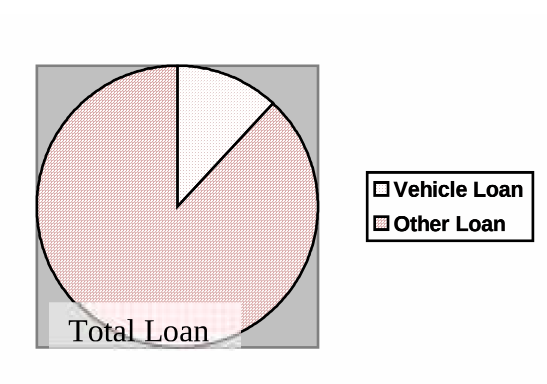
Source: Annual Report of NCCB, 2012

Mean Proportion ($\overline{p}_{NCCB}$) = $\frac{\sum P}{n}$ = $\frac{59.68}{5}$% = 11.94 %

The mean proportion of Vehicle Loan on Total Loan can be presented in diagram to make clear as following

Figure: 4.5

Mean Proportion of Vehicle Loan on Total Loan of NCCB



Where as,

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣP = Sum of the Proportion

4.5.1 Correlation between Vehicle Loan and Total Loan for EBL

To find out the relationship between Vehicle loan and total loan, it is necessary to know the magnitude of relationship. The better measure to know the magnitude of relationship is to calculate correlation coefficient. Following table 4.9 shows the calculation procedures of correlation coefficient.

Table: 4.9

Correlation between Vehicle Loan and Total Loan for EBL

(Rs in Lakhs)

year	Vehicle loan(X)	Total loan (Y)	X.Y	X^2	Y^2
2063/064	1671	50495	84377145	2792241	2549745025
2064/065	2149	60720	130487280	4618201	3686918400
2065/066	3524	78705	277356420	12418576	6194477025
2066/067	5727	101363	580505901	32798529	10274457769
2067/068	7855	140419	1102991245	61701025	19717495561
	ΣX=20926	ΣY= 431702	ΣXY=2175717991	ΣX^2=114328571	ΣY^2 =42423093780

$$r_{xy} = \frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣX^2 = Sum of the square of observation in series in X

ΣY^2 = Sum of the square of observation in series in Y

ΣXY = Sum of the product of the observations in series X and series Y

$$r_{xy} = \frac{5 \times 2175717991 - (20926)(431702)}{\sqrt{5 \times 114328571 - (20926)^2}\sqrt{5 \times 42423093780 - (431702)^2}}$$

$= 0.994$

Since, Correlation coefficient is highly positive, which indicate that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.994 time in the same direction. This figure indicates EBL that Vehicle loan is one of the major factor to increase total loan.

Probable Error (P.E) of Correlation coefficient

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

= 0.000000354

Since, r> P.E.(r), therefore r is significant. The relationship between Vehicle loan and total loan is very strong.

4.5.2 Correlation between Vehicle Loan and Total Loan for KBL

Table: 4.10

Correlation between Vehicle Loan and Total Loan for KBL

(Rs. In Lakhs)

Year	Vehicle Loan(X)	Total Loan(Y)	XY	X^2	Y^2
2063/064	263	21247	5587961.00	69169.00	451435009.00
2064/065	414	36979	15309306.00	171396.00	1367446441.00
2065/066	523	56434	29514982.00	273529.00	3184796356.00
2066/067	634	70078	44429452.00	401956.00	4910926084.00
2067/068	925	88398	81768150.00	855625.00	7814206404.00
	ΣX=2759	ΣY= 273126	ΣXY=176609851	ΣX^2=1771675	ΣY^2 =17728810294

Now, $r_{xy} = \frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣX^2 = Sum of the square of observation in series in X

ΣY^2 = Sum of the square of observation in series in Y

ΣXY = Sum of the product of the observations in series X and series Y

$$r_{xy} = \frac{5\times176609851-(2759)(273126)}{\sqrt{5\times1771675-(2759)^2}\sqrt{5\times17728810294-(273126)^2}}$$

= 0.9787

Since, Correlation coefficient is highly positive value, which indicate that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.9787 time in the same direction.

Probable Error (P.E) of Correlation coefficient

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

= 0.0127

Since, r> P.E.(r), therefore r is significant. The relationship between Vehicle loan and total loan is very strong.

4.5.3 Correlation between Vehicle loan and Total loan for NCCB

Table No. 4.11

Correlation between Vehicle loan and Total loan for NCCB

(Rs. In Lakhs)

Year	Vehicle Loan(X)	Total Loan(Y)	XY	X^2	Y^2
2063/064	4952	33964	168189728.00	24522304.00	1153553296.00
2064/065	6406	47173	302190238.00	41036836.00	2225291929.00
2065/066	6739	60119	405141941.00	45414121.00	3614294161.00
2066/067	6169	58992	363921648.00	38056561.00	3480056064.00
2067/068	5107	51946	265288222.00	26081449.00	2698386916.00
	ΣX=29373	ΣY= 252194	ΣXY=1504731777	ΣX^2=175111271	ΣY^2 =13171582366

Now, $r_{xy} = \frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{n\Sigma X^2 - (\Sigma X)^2}\sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣX^2 = Sum of the square of observation in series in X

ΣY^2 = Sum of the square of observation in series in Y

ΣXY = Sum of the product of the observations in series X and series Y

$$r_{xy} = \frac{5\times1504731777 - (29373)(252194)}{\sqrt{5\times175111271 - (29373)^2}\sqrt{5\times13171582366 - (252194)^2}}$$

= 0.683

Since, Correlation coefficient is highly positive value, which indicate that the relationship between two variables is strong. In other words when one variable changes by one time, other variable also changes by 0.683 time in the same direction.

Probable Error (P.E) of Correlation coefficient

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

$$= 0.161$$

Since, r> P.E.(r), therefore r is significant. The relationship between Vehicle loan and total loan is very strong.

4.6 Trend Analysis

To find the future scenario of Vehicle loan for sample banks, trend analysis has been done. This statistical test describes the trend of any variables with passage of time. Most popular method for trend analysis is least square method. The formula of least square method is,

$y_c = a + bx$

Where, $a = \frac{\Sigma y}{n}$

$b = \frac{\Sigma xy}{\Sigma x^2}$

Here, y_c is used to designate the trend value to distinguish from the actual value. 'a' is the y_c intercept as the computed trend figure of the trend line or the amount of change in Y variable, that is associated with a change of one unit on X variable represents the time.

4.6.1 Trend Analysis of Vehicle Loan of EBL

In this section, an attempt has made to analyze the trend amount of Vehicle loan for EBL and to forecast the Vehicle loan for the coming 3 yearly period.

Table: 4.12

Trend Analysis of Vehicle loan of EBL (Rs. In Lakhs)

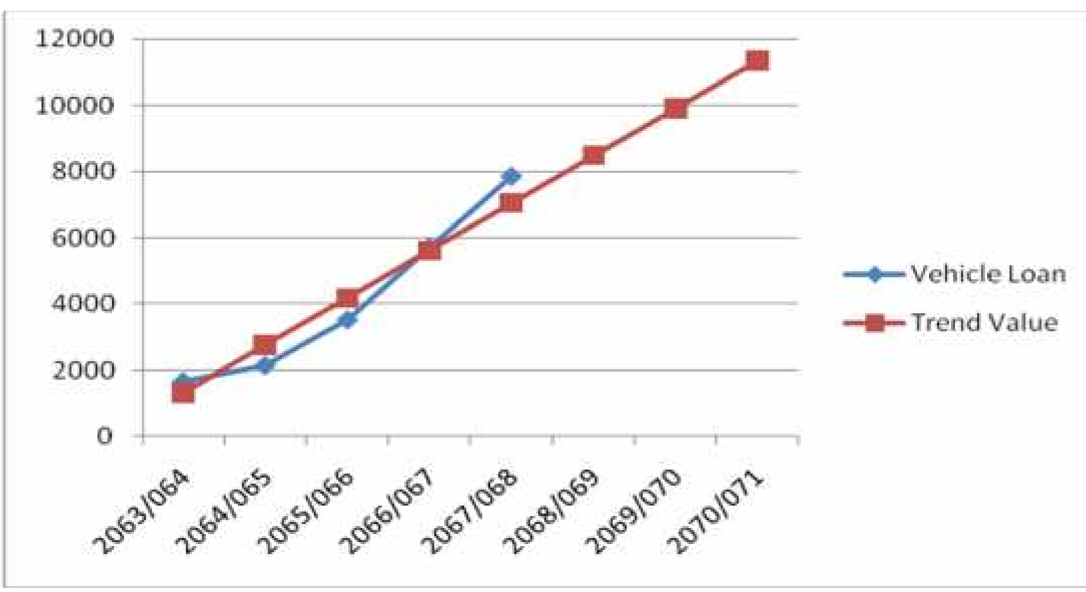
FY	Vehicle Loan	Trend Value
2063/064	1671	1322.5
2064/065	2149	2753.85
2065/066	3524	4185.2
2066/067	5727	5616.55
2067/068	7855	7047.9
2068/069	Forecasted value	8479.25
2069/070	Forecasted value	9910.5
2070/071	Forecasted value	11341.95
Mean (a)		4185.2
Rate of Change (b)		1431.35
Trend Equation		4185.2+1431.35x

Sources: Appendix 1

From the table 4.9, it is found that the amount of Vehicle loan of EBL is in increasing trend. The rate of change is Rs. 1431.35Lakhs. i.e. b=1431.35. The mean Vehicle loan of Yearly period is Rs.4185.2 Lakhs in the study period. If other things remain same, the Vehicle loan for the Yearly period ending 2068/069, 2069/070 and 2070/071 will be Rs. 8479.25 Lakhs, Rs. 9910.5 Lakhs and Rs. 11341.95 Lakhs respectively. These facts can be presented in diagram to make clear as following.

Figure: 4.6

Trend Analysis of Vehicle Loan of EBL



4.6.2 Trend Analysis of Vehicle Loan of KBL

The trend of amount of Vehicle loan for KBL and its forecasted Vehicle loan amount for the coming 3 yearly period are presented in table 4.9

From the table 4.9, it has been revealed that the amount of Vehicle loan of KBL is fluctuated in increasing trend. The rate of change is Rs. 169.47 lakhs, i.e. b= 169.47. The mean Vehicle loan of yearly period is Rs. 551.8 lakhs i.e. a = 551.8 in the study period. If other things remaining the same, the Vehicle loan for the yearly period ending 2068/069, 2069/070 and 2070/071 will be Rs. 1060.21 lakhs, Rs. 1229.68 lakhs and Rs. 1399.15 lakhs respectively.

Table: 4.13

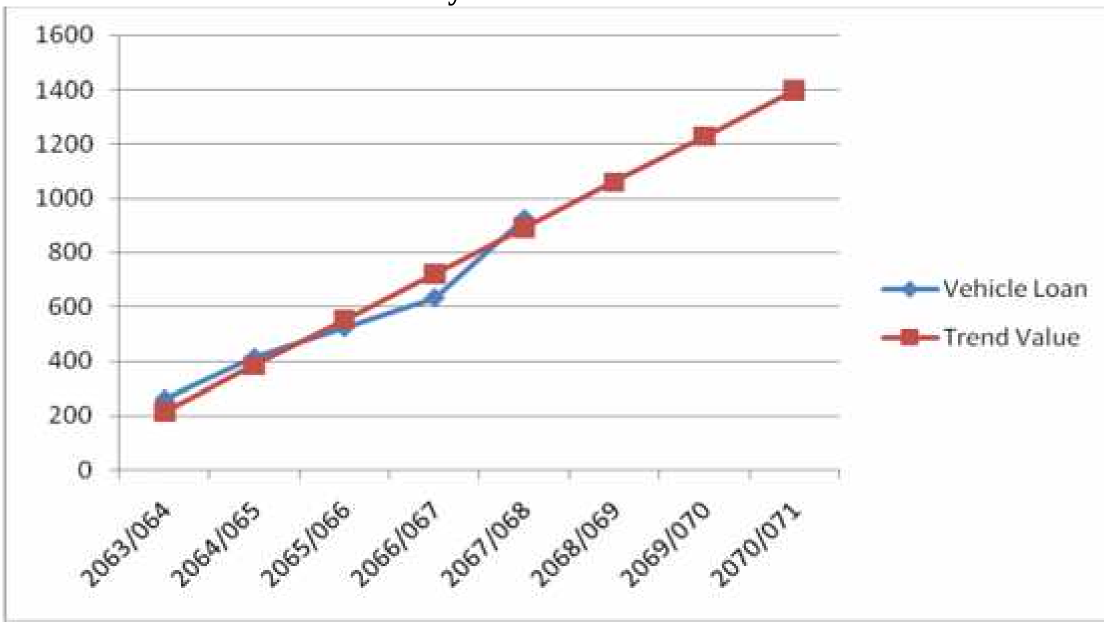
Trend Analysis of Vehicle Loan of KBL (Rs. In Lakhs)

FY	Vehicle Loan	Trend Value
2063/064	263	212.86
2064/065	414	382.33
2065/066	523	551.8
2066/067	634	721.27
2067/068	925	890.74
2068/069	Forecasted value	1060.21
2069/070	Forecasted value	1229.68
2070/071	Forecasted value	1399.15
Mean (a)		551.8
Rate of Change (b)		169.47
Trend Equation		551.8+169.47x

Sources: Appendix 2

To make clear these facts can be presented in diagram 4.7 as following.

Figure: 4.7
Trend Analysis of Vehicle Loan of KBL



4.6.3 Trend Analysis of Vehicle Loan of NCCB

An attempt has made to analyze the trend of amount of Vehicle loan of NCCB and to forecast the Vehicle loan for the coming 3 yearly period.

From the table 4.11 it is depicted that the amount of Vehicle loan of NCCB is fluctuated but in increasing trend. The rate of change is Rs. 1605.31lakhs, i.e. b= 1605.31. The mean Vehicle loan of yearly period is Rs. 5874.6 lakhs in the study period. If other things remaining the same, the Vehicle loan for the yearly period ending 2068/069, 2069/070 and 2070/071 will be Rs. 10689.5 lakhs, Rs. 12294.5 lakhs and Rs. 13899.6 lakhs respectively.

Table: 4.14

Trend Analysis of Vehicle Loan of NCCB (Rs. In Lakhs)

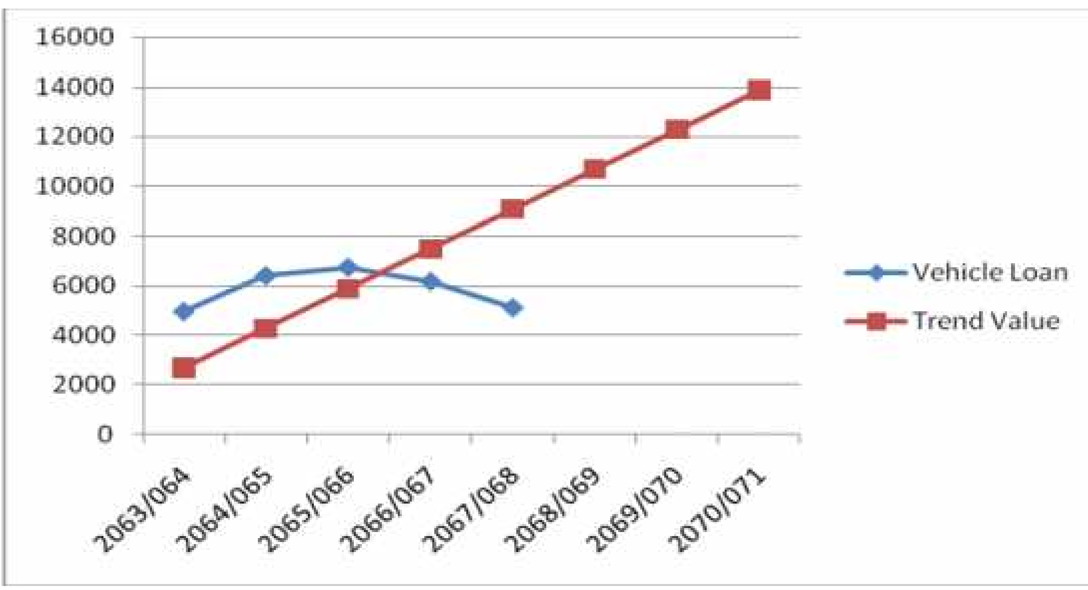
FY	Vehicle Loan	Trend Value
2063/064	4952	2664.5
2064/065	6406	4269.5
2065/066	6739	5874.6
2066/067	6169	7479.5
2067/068	5107	9084.6
2068/069	Forecasted value	10689.6
2069/070	Forecasted value	12294.5
2070/071	Forecasted value	13899.5
Mean (a)		**5874.6**
Rate of Change (b)		**1605.31**
Trend Equation		**5874.6+1605.31x**

Sources: Appendix 3

These facts can be presented in figure: 4.8 to make clear as following.

Figure: 4.8

Trend Analysis of Vehicle Loan of NCCB



4.6.4 Trend Analysis of Loan of EBL

In this section, an attempt is made to analyze the trend of loan of EBL and to forecast the loan for the coming 3 yearly period.

Table: 4.15

Trend Analysis of Total Loan of EBL (Rs. In Lakhs)

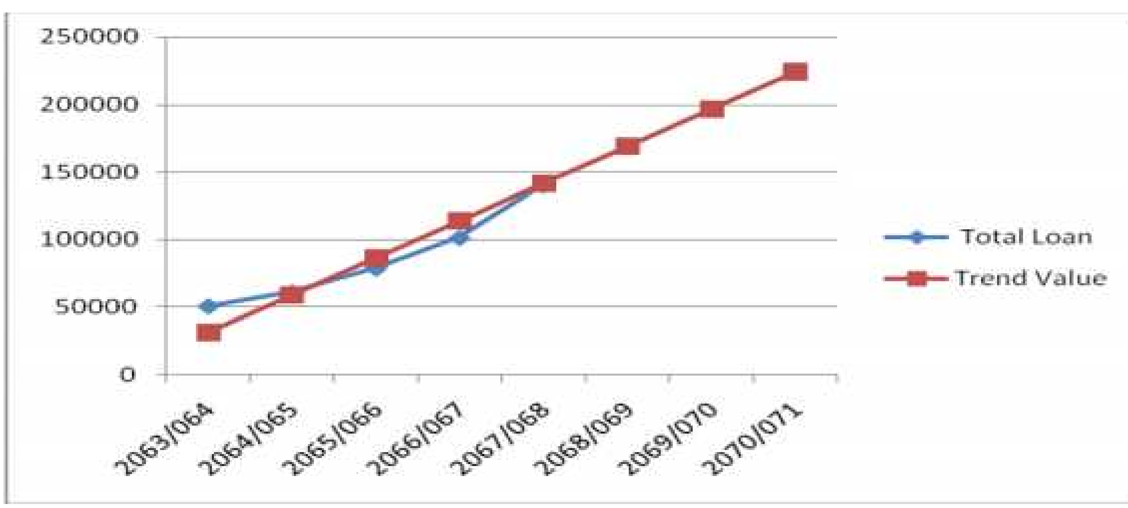
FY	Total Loan	Trend Value
2063/064	50495	31227.88
2064/065	60720	58784.18
2065/066	78705	86340.5
2066/067	101363	113896.81
2067/068	140419	141453.13
2068/069	Forecasted value	169009.43
2069/070	Forecasted value	196565.74
2070/071	Forecasted value	224122.05
Mean (a)		**86340.5**
Rate of Change (b)		**27556.31**
Trend Equation		**86340.5+27556.31x**

Sources: Appendix 4

From the table: 4.12, it is revealed that the amount of total loan of EBL is fluctuated in increasing trend. The rate of change is Rs. 27556.31 lakhs. i.e. b=27556.31. The mean of total loan of yearly period is Rs. 86340.5 lakhs in the study period. If other things remaining the same, the total loan for the yearly period ending 2068/069, 2069/070 and 2070/071 will be Rs. 169009.43 lakhs, Rs. 196565.74 lakhs and Rs. 224122.05 lakhs respectively. These facts can be presented in diagram to make clear as following.

Figure: 4.9

Trend Analysis of Loan of EBL



4.6.5 Trend Analysis of Total Loan of KBL

In this section, an attempt is made to analyze the trend of total loan of KBL and to forecast the total loan for the coming 3 yearly period.

From the table: 4.13, it is revealed that the amount of total loan of EBL is fluctuated in increasing trend. The rate of change is Rs. 17941.98 lakhs, i.e. b=17941.98. The mean of total loan of every yearly period is Rs. 54627.21 lakhs i.e. a = 54627.21 in the study period. If other things remaining the same, the total loan for the yearly period ending 2068/069, 2069/070 and 2070/071 will be Rs. 108453.14 lakhs, Rs. 126395.13 lakhs and Rs. 144337.1 lakhs respectively.

Table: 4.16

Trend Analysis of Total Loan of KBL **(**Rs. In Lakhs)

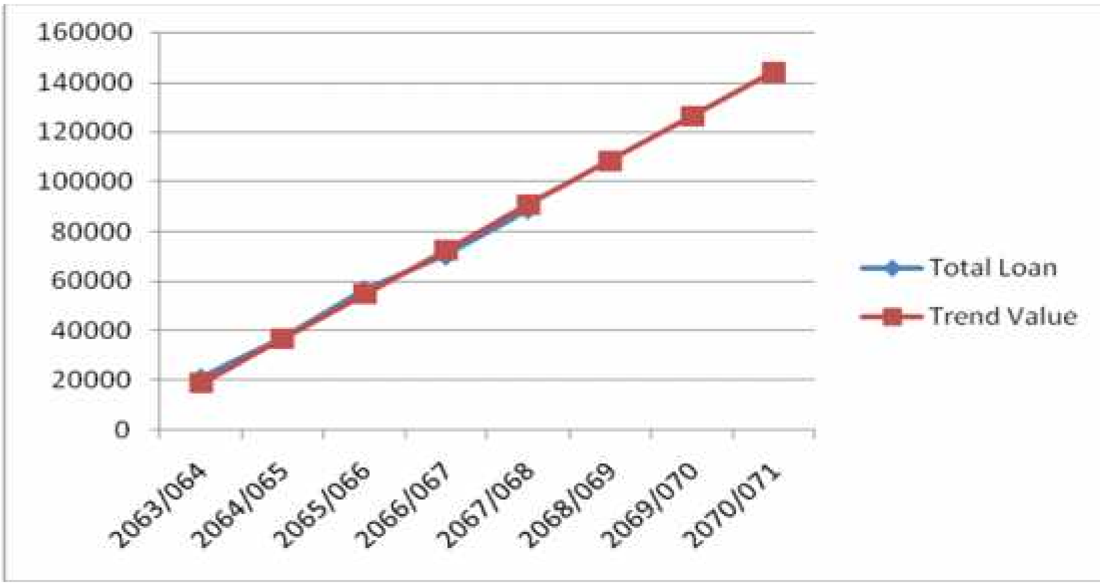
FY	Total Loan	Trend Value
2063/064	21247	18743.24
2064/065	36979	36685.22
2065/066	56434	54627.2
2066/067	70078	72569.19
2067/068	88398	90511.15
2068/069	Forecasted value	108453.14
2069/070	Forecasted value	126395.13
2070/071	Forecasted value	144337.1
Mean (a)		**54627.2**
Rate of Change (b)		**17941.98**
Trend Equation		**54627.2+17941.98x**

Sources: Appendix 5

These facts can be presented in diagram 4.10 as following.

Figure: 4.10

Trend Analysis of Total Loan of KBL



4.6.6 Trend Analysis of Total Loan of NCCB

In this section, an attempt is made to analyze the trend of total loan of NCCB and to forecast the Total loan for the coming three yearly period.

From the table: 4.14, it is depicted that the amount of total loan of NCCB is fluctuated but in increasing trend. The rate of change is Rs. 14624.82 lakhs, i.e. b=14624.82. The mean of total loan of yearly period is Rs50438.8 lakhs in the study period. If other things remaining the same, the total loan for the yearly period ending 2068/069, 2069/070 and 2070/071 will be Rs. 94313.25 lakhs, Rs. 108938.09 lakhs and Rs. 123562.9 lakhs respectively.

Table: 4.17

Trend Analysis of Total Loan of NCCB (Rs. In Lakhs)

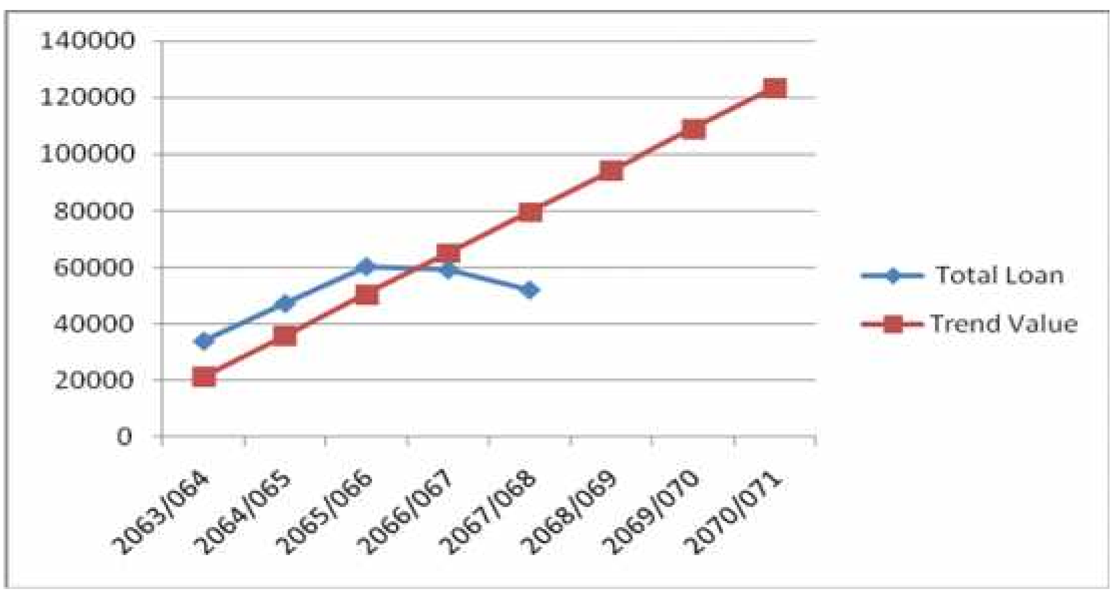
FY	Total Loan	Trend Value
2063/064	33964	21189.15
2064/065	47173	35814.9
2065/066	60119	50438.8
2066/067	58992	65063.62
2067/068	51946	79688.44
2068/069	Forecasted value	94313.25
2069/070	Forecasted value	108938.09
2070/071	Forecasted value	123562.9
Mean (a)		**50438.8**
Rate of Change (b)		**14624.82**
Trend Equation		**50438.8 + 14624.82x**

Sources: Appendix 6

These facts can be presented in diagram to make clear as following.

Figure: 4.11

Trend Analysis of Total Loan of NCCB



4.7 Major Findings of the Study

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist the findings, issues and gaps of the study. This would be meaningful to the desired result. The following presents a comprehensive summary of the main finding of the study.

Vehicle finance scheme and features

- The EBL has been providing the Vehicle finance since April 2001. The interest rate on Vehicle loan has been revised from 13.5% to 16%. Similarly the KBL and NCCB have been charging the interest of 14% to16% and 14.99% to 18% respectively.
- The Vehicle loan amount of EBL has been increased to 60% - 80% of the cost of a Vehicle, which one is customer needed. Likewise, the KBL and NCCB have been granting as same as EBL. The maximum loan amount of the every sample banks is equal and it is equivalent to the purchase price of the Vehicle.
- The loan repayment period of EBL, KBL and NCCB is equal and it is up to 5 years payback period for equal monthly installment.
- All the sample banks have not provided the loans of a dealer till years. The EBL has disbursed Rs. 20926 lakhs in Vehicle loan while the KBL and NCCB have disbursed Rs. 2759 lakhs and Rs. 29373 lakhs respectively.
- All the sample banks have been providing the Vehicle finance for its feature of uses to private uses vehicle, public uses vehicle and commercial uses vehicle.
- The age limits for the repayment of last installment is not considered of EBL and NCCB but KBL is consider its age bar for 60 years with in contract period.
- The mode of repayment for every bank is equal monthly installment (EMI).
- The EBL has approximately 4520 loan customer till now while KBL and NCCB have approximately 1458 and 768 customers with its over draft account holder too.

Position of Vehicle Loan

- The proportion of Vehicle loan in total loan for all the banks under the study is in increasing trend but the ratio of KBL is found sharply increased.
- The amount of Vehicle loan for EBL was Rs. 1671 lakhs in 2063/064 and it has increased to Rs. 7855 lakhs in 2067/068.
- Similarly, the ratio of Vehicle loan on total loan is 11.94 % of NCCB was Rs. 4952 lakhs in 2063/064 and it was increase in increasing ratio in 2065/066 was Rs.6739 lakhs. Then after it was decreasing trend was Rs. 6169 lakhs in 2066/067 and Rs. 5107 lakhs in 2067/068 respectively. And KBL was increasing trend by its one-third ratio of its Vehicle loan was Rs. 263 lakhs in 2063/064 and Rs. 925 lakhs in 2067/068.

Position of Total Loan

The amount of total loan disbursed by EBL and KBL is better increasing trend nearly one-third times but the loan amount of NCCB is in increasing trend till 2065/066 and is in decreasing trend thereafter.

- The total loan amount for EBL was Rs. 50495 lakhs in 2063/064 and it has reached to Rs. 140419 lakhs in 2067/068.
- Similarly for KBL, the amount has increased from Rs. 21247 lakhs in 2063/064 to Rs. 88398 lakhs in 2067/068. While the amount of NCCB was Rs. 33964 in 2063/064 and has reached to Rs. 60119 lakhs in 2065/066 but it was decreased thereafter to Rs. 58992 lakhs in 2066/067 and Rs. 51946 lakhs in 2067/068.

Correlation between Vehicle Loan and Total Loan

Correlation analysis between different variables of EBL, KBL and NCCB reveals that;

- It is found that the correlation between Vehicle loan of EBL is highly positive; i.e. r = 0.994. It means, the EBL has increased its Vehicle loan scheme each year in the same proportion at which the amount of loan is increased.
- Similarly, the correlation between Vehicle loan and total loan of KBL has high positive value; i.e. r = 0.9787 that indicates the relationship between two variables is very strong.

- It is also found that the correlation between Vehicle loan and total loan of NCCB is highly positive; i.e. r = 0.683, which means when one variable changes by one times, other variable also changes by 0.683 time in the same direction.

From the above result, it is seem that the relationship between Vehicle loan and total loan of all the banks is significantly positive.

Trend Analysis of Vehicle Loan

- It is found that the amount of Vehicle loan of EBL is fluctuated in increasing trend. The rate of change is Rs. 1431.35 lakhs. i.e. b=1431.35. The mean Vehicle loan of yearly period is Rs. 4185.2 lakhs during the study period.
- It has been revealed that the amount of Vehicle loan of KBL is fluctuated in increasing trend. The rate of change is Rs. 169.47 lakhs, i.e. b= 169.47. The mean Vehicle loan of yearly period is Rs. 551.8 lakhs during the study period.
- It is depicted that the amount of Vehicle loan of NCCB is fluctuated in increasing trend. The rate of change is Rs.1605.31 lakhs. i.e. b= 1605.31. The mean Vehicle loan of yearly period is Rs. 5874.6 lakhs during the study period.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is concluding chapter. In this chapter, summary of the study and conclusions derived from the study are presented. At last recommendations to the concerned body on the basis of the major findings are presented for the implementation and improvement in the future.

5.1 Summary

Many commercial banks, developments banks and financial institutions are operating in the economy to assist in the process of economic development in the country. Due to the high competition between the financial institutions, the collected huge amount of deposit from public is not properly invested. It is due to the lack of demand for fund. So, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in the overall development of economy of the nation.

The unplanned expansion of city, uncontrolled population growth, lack of drinking water, lack of basic facilities and fresh environment, deteriorating security, raise in nuclear families and working couples have resulted a sharp increase in demand for staying in countryside for fresh environment with basic facilities and peoples wants to be comfortable day to day their life, so peoples used many related things. Such as “Vehicle” to reach their destination at time. But, the continued high rates of population growth and staying in city causes traffic jam. It made that high rate of population and Vehicles are increasing day to day, the commercialization and growing regularization of land markets in the city, peoples are going to shift in countryside nearly city and they used Vehicle for operating their daily work. Shortage of road and small size road causes the problem of investment in Vehicle finance and reduced to use public Vehicle so individually wants their own Vehicle, which is uses in city these days are very difficult because of many accident.. As the major motive of the commercial banks is to earn more profit, they want to disburse the deposits on loans and advance in different sectors. These days, most of the commercial banks are moving towards the consumer financing. Vehicle finance is one of the most importance sectors among the various consumer finance. Bank has to take minimum risk while providing Vehicle loans to the needy people because the ownership of the Vehicle is bank too and its accident risks are bear for the insurance companies.

Today Vehicle finance is one of the important financing sectors of the commercial banks in Nepal. Though the private Vehicle user and public Vehicle user are different and these days private vehicle user are increasing day to day because of saving their time, if they used that time in their work their earning are definitely increasing. They used that earning for their monthly installment and save some for their future purpose. General people are still deprived of the facility to own their Vehicles and many commercial institutions make it easier. So, an independent study in this sector will help people to find their way to the solution for their investment for the suitable time in suitable Vehicle.

The main objectives of this research work are to examine, interpret and analyze the Vehicle financing scheme adopted by the sampled banks, i.e. Everest Bank Ltd. Kumari Bank Ltd. and Nepal Credit and Commerce Bank Ltd. This study is also concerned with evaluate the relationship between total loan and Vehicle loan.

5.2 Conclusion

Vehicle finance scheme in EBL was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for Vehicle loan up on the cost of the Vehicle and it has to limitation is 60%-80% of the cost. The interest rate has been revised from 7% to 8.5% and the loan amount has been increased to the needed of the cost of it. The loan repayment period has also been depends up to 5 years. The financing is provided its various kinds of its user such as; private, public and commercial Vehicles. The age limit for the repayment of last installment is not considered of the borrower. It has already 4520(Approximately) loan account holder for their daily transaction with overdraft account too.

KBL has introduced Vehicle loan scheme since July 2001 in the market. It has a provision to finance only up to 60% of the cost of purchase a new Vehicle with the guarantee of their land or building with in municipal boundaries. Depending upon the cost and needed, the loan amounting is to be considered of its down payment and it may be disbursed at a very competitive rate of interest of 9%-10%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 60 months with a charge of 1% as prepaid amount on the outstanding amount. The finance is provided to its different users such as; private, public and commercial Vehicles the age limits are 60 years with in contract period. It has 1458(Approximately) loan account holder customer with its overdraft account holder too.

NCCB has also started Vehicle loan scheme for its valued customers. It has been introduced Vehicle finance scheme since 1999 in the market. Before the date, it has provided the Vehicle loan under consumer financing. To get the Vehicle loan facilities from the bank, the customer need to provide the guarantee of their land or building of their own name in municipal boundaries. Depending upon the cost of Vehicle and its needed, the bank provide Vehicle loan up to 80% of its cost of a new Vehicle at a very competitive rate of 9%- 12%. Its mode of repayment is equal monthly installment basis and it has not any age bar for the loan.

While observing the past five annual periods data covering five years analysis, it is found that the proportion of Vehicle loan in total loan for all the banks under study is in increasing trend. The ratio of EBL is found sharply increased. The amount of Vehicle loan for EBL was Rs. 1671 lakhs in 2063/064. The amount has increased to Rs. 7855 lakhs in 2067/068. Similarly, the ratio of KBL and NCCB was Rs. 263 lakhs and 4952 lakhs respectively in 2063/064. These amounts have increased to Rs. 925 lakhs and Rs. 5107 respectively in 2067/068.But NCCB was increased their Vehicle loan Rs.6739 in 2065/066, after that it was decreasing trend.

It is found that the amount of total loan disbursed by EBL is in increasing trend. The amount was Rs. 50495 in 2063/064. The amount has been seen to be increased by nearly more than double amount in past five years, yearly periods. The amount has reached to Rs. 140419 lakhs in 2067/068. Similarly for KBL, the amount is in increasing trend and the amount has increased from Rs. 21247 lakhs in 2063/064 to Rs. 88398 lakhs in 2067/068. In the same manner, for NCCB, the amount is in increasing trend for past three years periods but latter on it has decreased. The amount was Rs. 33964 lakhs in 2063/064 and the amount was increased to Rs. 60119 lakhs in 2065/066 but it was decreased to Rs. 51946 lakhs in 2067/068.

It has found that the correlation between Vehicle loan and total loan of EBL is highly positive, i.e. r = 0.994, which indicate that the relationship between two variables is very strong. In other word, EBL has increased its Vehicle loan scheme each year in the same proportion at which the amounts of loans are increased every years.

It is found that Correlation coefficient between Vehicle loan and total loan of KBL has high positive value, which indicates that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.9787 time in same direction.

It is revealed that the correlation between Vehicle loan and total loan of NCCB was highly positive value, which, indicate that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.683 time in same direction.

It is found that the amount of Vehicle loan of EBL is fluctuated in increasing trend. The rate of change is Rs.1594.6 lakhs i.e. b=1594.6. The mean Vehicle loan of yearly period is Rs. 4185.2 lakhs during the study period.

It has been revealed that the amount of Vehicle loan of KBL is fluctuated in increasing trend. The rate of change is Rs. 154.4 lakhs, i.e. b= 154.4. The mean Vehicle loan of yearly period is Rs. 551.8 lakhs during the study period.

It is depicted that the amount of Vehicle loan of NCCB is fluctuated in increasing trend. The rate of change is Rs. 7.3 lakhs i.e. b= 7.3. The mean Vehicle loan of yearly period is Rs. 5874.6 lakhs during the study period.

5.3 Recommendations

Based on the study, it is found that the amount of Vehicle loan is in increasing trend. Among the sample banks, EBL has disbursed higher amount for Vehicle loan. EBL is the pioneer bank in Nepal, which initiates the Vehicle loan scheme in Nepal. However, the other two sample banks are also providing Vehicle loan but they are not as aggressive as EBL. On the basis of the foregoing findings and conclusions, the following recommendations are made to improve Vehicle finance policies and scheme.

- When there is less investment opportunity in the country, Vehicle loan is one of the best avenues for investment. Regarding this, EBL has disbursed large amount of fund for Vehicle loan. However, other two-sample bank, KBL and NCCB, have disbursed little amount as Vehicle loan. So it is recommended for them to increase the chunk of Vehicle loan as it is emerging sector for banks.
- Another factor hindering the growth of Vehicle loan is its interest rate. So the sample banks are requested to lower down the interest rate for Vehicle loan.
- The procedure to get Vehicle loan is quite tedious and lengthy. So it is suggested to make the procedure easy.
- Government should provide a regulatory climate conducive to the establishment of private specialized Vehicle finance institutions by allowing them to compete effectively for savings and respond to market demand for loan rates.
- The financial institutions should be more aggressive in providing the Vehicle loans with improved EMI, interest rate and payback period.
- More simplified legal procedure should be established by the financial institutions to cater the loans in efficient manner.

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Appendix I

Trend analysis of Vehicle Loan of past period for EBL

Year (X)	**Vehicle Loan (y)**	**x = X – 2065/2066**	**x^2**	**xy**	**Trend Value Yc**
2063/064	1671	-2	4	- 3342	996
2064/065	2149	-1	1	- 2149	2590.6
2065/066	3524	0	0	0	4185.2
2066/067	5727	1	1	5727	5779.8
2067/068	7855	2	4	15710	737440
	$\Sigma y = 20926$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 15946$	

Period 2065/2066 assumed base year.

Since, $\Sigma y = 20926$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 15946$, n = 5

$$\because \ a = \frac{\Sigma y}{n} = \frac{20926}{5} = 4185.2$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{15946}{10} = 1594.6$$

Now, Equation of Trend line Yc = a + bx
= 4185.2 + 1594.6 x

Trend value for period 2068/2069 = 4185.2 + 1594.6 × 3 = 8969
Trend value for period 2069/2070 = 4185.2 + 1594.6 × 4 = 10563.6
Trend value for period 2070/2071 = 4185.2 + 1594.6 × 5 = 12158.2

Appendix II

Trend analysis of Vehicle Loan of past period for KBL

Year (X)	**Vehicle Loan (y)**	**x = X – 2065/2066**	**x^2**	**xy**	**Trend Value Yc**
2063/064	263	-2	4	- 526	243
2064/065	414	-1	1	- 414	397.4
2065/066	523	0	0	0	551.8
2066/067	634	1	1	634	706.2
2067/068	925	2	4	1850	860.6
	$\Sigma y = 2759$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 1544$	

Period 2065/2066 assumed base year.

Since, $\Sigma y = 2759$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 1544$, n = 5

$$\because \ a = \frac{\Sigma y}{n} = \frac{2759}{5} = 551.8$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{1544}{10} = 154.4$$

Now, Equation of Trend line Yc = a + bx
= 551.8 + 154.4 x

Trend value for period 2068/2069 = 551.8 + 154.4 × 3 = 1015
Trend value for period 2069/2070 = 551.8 + 154.4 × 4 = 1169.4
Trend value for period 2070/2071 = 551.8 + 154.4 × 5 = 1323.8

Appendix III

Trend analysis of Vehicle Loan of past period for NCCB

Year (X)	**Vehicle Loan (y)**	**x = X – 2065/2066**	**x^2**	**xy**	**Trend Value Yc**
2063/064	4952	- 2	4	- 9904	5860
2064/065	6406	- 1	1	- 6406	5867.3
2065/066	6739	0	0	0	5874.6
2066/067	6169	1	1	6169	5881.9
2067/068	5107	2	4	10214	5889.2
	$\Sigma y = 29373$	$\Sigma x = 0$	$\Sigma x^2 = 10$	$\Sigma xy = 73$	

Period 2065/2066 assumed base year.

Since, $\Sigma y = 29373$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 73$, n = 5

$$\because\ a = \frac{\Sigma y}{n} = \frac{29373}{5} = 5874.6$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{73}{10} = 7.3$$

Now, Equation of Trend line Yc = a + bx
= 5874.6 + 7.3 x

Trend value for period 2068/2069 = 5874.6 + 7.3 × 3 = 5896.5
Trend value for period 2069/2070 = 5874.6 + 7.3 × 4 = 5903.8
Trend value for period 2070/2071 = 5874.6 + 7.3 × 5 = 5911.1

Appendix IV

Trend analysis of Total Loan of past five years period for EBL

Year (X)	Total Loan (y)	x = X – 2065/2066	x^2	xy	Trend Value Yc
2063/064	50495	- 2	4	- 100990	42242.4
2064/065	60720	- 1	1	- 60720	64291.5
2065/066	78705	0	0	0	86340.6
2066/067	101363	1	1	101363	108389.7
2067/068	140419	2	4	280838	130438.8
	$\Sigma y =$ 431703	$\Sigma x = 0$	$\Sigma x^2 =$ 10	$\Sigma xy =$220491	

Period 2065/2066 assumed base year.

Since, $\Sigma y = 431703$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 220491$, n = 5

$$\because \ a = \frac{\Sigma y}{n} = \frac{431703}{5} = 86340.6$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{220491}{10} = 22049.1$$

Now, Equation of Trend line Yc = a + bx
= 86340.6 + 22049.1 x

Trend value for period 2068/2069 = 86340.6 + 22049.1 × 3 = 152487.9
Trend value for period 2069/2070 = 86340.6 + 22049.1 × 4 = 174537
Trend value for period 2070/2071 = 86340.6 + 22049.1 × 5 = 196586.1

Appendix V

Trend analysis of Total Loan of past five years period for KBL

Year (X)	Total Loan (y)	x = X –2065/2066	x^2	xy	Trend Value Yc
2063/064	21247	- 2	4	- 42494	21147
2064/065	36979	- 1	1	- 36979	37887.1
2065/066	56434	0	0	0	54627.2
2066/067	70078	1	1	70078	71367.3
2067/068	88398	2	4	176796	88107.4
	Σy =273136	Σx = 0	Σx^2 =10	Σxy =167401	

Period 2065/2066 assumed base year.

Since, Σy = 273136, Σx = 0, Σx^2 = 10, Σxy = 167401, n = 5

$$\because\ a = \frac{\Sigma y}{n} = \frac{273136}{5} = 54627.2$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{167401}{10} = 16740.1$$

Now, Equation of Trend line Yc = a + bx

= 54627.2 + 16740.1 x

Trend value for period 2068/2069 = 54627.2+ 16740.1 × 3 = 104847.5
Trend value for period 2069/2070 = 54627.2 + 16740.1 × 4 = 121587.6
Trend value for period 2070/2071 = 54627.2 + 16740.1 × 5 = 138327.7

Appendix VI

Trend analysis of Total Loan of past five years period for NCCB

Year (X)	Total Loan (y)	x = X – 2065/2066	x^2	xy	Trend Value Yc
2063/064	33964	- 2	4	- 67928	40882.2
2064/065	47173	- 1	1	- 47173	45660.5
2065/066	60119	0	0	0	50438.8
2066/067	58992	1	1	58992	55217.1
2067/068	51946	2	4	103892	59995.4
	Σy =252194	Σx = 0	Σx^2 =10	Σxy =47783	

Period 2065/2066 assumed base year.

Since, Σy = 154739.19, Σx = 0, Σx^2 = 28, Σxy = 23281.58, n = 7

$$\because\ a = \frac{\Sigma y}{n} = \frac{252194}{5} = 50438.8$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{47783}{10} = 4778.3$$

Now, Equation of Trend line Yc = a + bx

= 50438.8 + 4778.3 x

Trend value for period 2068/2069 = 50438.8 + 4778.3 × 3 = 64773.7
Trend value for period 2069/2070 = 50438.8 + 4778.3 × 4 = 69552
Trend value for period 2070/2071 = 50438.8 + 4778.3 × 5 = 74330.3