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EXPLORING THE RELATION BETWEEN PROMOTER'S CONTRIBUTION AND RESUBMITTED APPROVED LOAN PROPOSAL IN THE INDIAN BANKS AT THE LOAN INCEPTION STAGE

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We empirically evidenced that the promoter's contribution with respect to resubmitted approved loan proposal in the Indian banks at the loan inception stage, is different and high with proper control for resubmission and non-resubmission of loan proposals at the time of approval of these loans using Mann-Whitney U test. The finding of this study implies that borrowers with higher promoter's contribution and unsecured loan in their control in self-interest will avoid violating core covenants at the inception stage of a loan to get the loans approved. There is evidence of earnings management with respect to resubmitted loan proposal which are approved. Banks should take this information into account while disbursing loan and framing credit policies.

1.1 INTRODUCTION

There exists extensive literature on owners and managers conflict of interest, and owners and lenders conflict of interest, and debt[2] covenants (Stein, 2003). The focus of earlier literature on debt covenant was on owner's incentives in monitoring manager's actions (Jensen and Meckling, 1976, Smith and Warner, 1979). The literature treated lenders as passive investors (Gale and Hellwig, 1985). Much of the work on the subject has focused on the firm's future growth and investment opportunities, probability of financial distress, as factors determining use of particular financial covenants (Nash et.al. 2003). The recent literature, however, also focuses on creditors. Shleifer and Vishny, 1997 recognized the lenders' incentives to monitor management through renegotiation before a default. In the literature, we find that loan contracts are more onerous than public debt contracts as in case of latter, the cost of renegotiations are high (Holthausen and Leftwich, 1983, Leftwich, 1983).

Similarly, another stream of literature studied financial accounting policy based on the existence and tightness of accounting rules in loan covenants and examined accounting choices, accruals, and the distribution of covenant financial ratios[3]. It is based on debt covenant hypothesis with the concept that managers in self-interest make use of accounting choice to avoid breaching loan

[2]We use the debt term for both public and private borrowings and the loan term for private borrowings. Similarly, we use lenders and creditors for both public and private borrowings and bankers for private borrowings.
[3]See Press and Weintrop, 1990; Begley, 1990; Citron, 1992a; Duke and Hunt, 1995

covenants. Thus, there is a difference in the private and public debts in this specification and preference of accounting rules in loan contracts, which are as per the borrower or bankers need, as different from the accepted accounting practices (Leftwich, 1983).Thus, an important aspect is the specification and preference of accounting rules in loan contracts.

We find that empirical research on loan covenants in this stream is based on debt covenant hypothesis (DCH)with the concept that managers in self-interest make use of accounting choice to avoid breaching loan covenants based on financial reports. In short, we find that empirical research on loan covenants is broadly divided into two streams: first, the causes and consequences of loan covenant. Second is the validation of debt covenant hypothesis (DCH). The objective of this study is based on the second aspect. The objective is to examine the relationship between the promoter's contribution in a loan account and earnings management with focus at the loan inception stage in Indian Banks.

Watts and Zimmerman (1978, 1986) using Positive Accounting Theory (PAT) approach shows that accounting numbers have been found to play a role in labor agreements, in bonus plans, and in debt agreements[4]. They mentions the objectives of PAT as explaining the reasons behind an observed practice and predicting the future based on evidence from the past phenomena. PAT assumes that individual's (like manager, lender, and investor) behaviour is to rationally maximize its utility. This theory with an economic view explains the stakeholder's relationship; accounting method choice in terms of manager's self-interest; and use of accounting in minimizing agency costs. PAT gave reasons to the efficient market hypothesis using the agency theory to explain reasons for the manager's self interest in the choice of accounting method (Watts and Zimmerman, 1986, 1990). Three hypotheses were developed to support this. These are: bonus plan; DCH; and political cost. Criticism of PAT includes: the motive of self-interest do not consider any adverse effects; the objective explains and predicts the individual behaviour and ignores what should be the behaviour; and it only says what will happen and does not provide a solution (Deegan, 2009).

[4]This approach is based on the descriptive theories and empiricism, and has dominated since the 1970s (Gaffikin, 2006). PAT is considered an extension of Friedman (1953) positive theories of economics.

DCH states that if a firm is close to breach the accounting based loan covenants; the manager in self-interest will more likely increase the firm's current earnings to reduce costs of technical default in a loan contract by choosing an accounting method. DCH is still being developed[5] (Watts and Zimmerman, 1986). This hypothesis attempts to explain firm's accounting policy on the basis of the financial loan covenants existence. And, if these financial ratios are tight enough to lead to a technical breach of loan covenants, which may lead to recall of loans or penalties as per the terms and conditions of loan agreement, the manager in self-interest will more likely choose an accounting method that will increase the firm's income to reduce costs of technical default. It assumes manager's decision is based on the potential effects on loan covenants. It assumes loan covenant breach is costly. It assumes this cost to be positively related to loan covenant restrictions in terms of tightness and nearness to these restrictions. As such, there exists a positive relation between this ratio of a firm and accounting methods that increase the income (Watts and Zimmerman, 1990).

An important basic fact in the context of developed economies is that its markets are relatively efficient than the developing economies. The Indian institutional setting is socially oriented, highly concentrated with only a small number of State controlled banks operating in the country besides a few private and foreign banks and differs from the developed countries where covenants are commonly used. Further, banks are different in different markets. Allen et al. (2007) find that compared to other nations, Indian banking system is considered to be healthy.

They find that borrower's selection is through a severe screening process and borrowers complain of high standards. This leads to borrowers submitting and resubmitting their financials, more than once, to a number of local banks or to multiple banks in a locality, for loan approvals. Usually, these resubmissions also include unaudited financials till loans are approved or, if a bank approves a loan based on these unaudited figures, a weak covenant is entered in the loan agreement, which specifies that +/- 10% adjustments are acceptable, when audited balance sheets are submitted (as observed in our primary data). The question then arises with respect to resubmission of loan proposal is with respect to incidence of debt covenant hypothesis (DCH) that is managers in self-interest make use of accounting choice to avoid breaching benchmark loan covenants to get the loan approved.

[5] See Dichev and Skinner, 2002

The earnings management literature has focused on two aspects in a loan contract: first, the bonus plan hypothesis of PAT. This hypothesis says that if a manager is rewarded for the firm's performance, the managers in self-interest will more likely increase the firm's current earnings by choosing an accounting method (Watts and Zimmerman, 1986). Second, the debt covenant hypothesis (DCH): here, loan covenants require that a firm maintain specified accounting figures including earnings. And, according to the DCH, these covenants generate incentives for a firm's manager to increase earnings to avoid a breach of loan covenants in the later stages of a loan life (Dichev and Skinner, 2002); to get a low pricing (Beatty et al. 2002); to get a loan approved. While avoiding a loan covenants breach is considered costly (Defond and Jiambalvo, 1994); a loan approved by meeting the loan covenant standards which increases the outstanding debt at a low pricing, is equally related to a bonus plan or debt covenant hypothesis. Thus, we find that both the aspects mentioned above are interlinked in earnings management particularly at the inception of a loan. Earnings management also says that bank covenants are more descriptive, and more restrictive. This makes the firms more vulnerable to the consequences of a breach in loan covenants. And, firms as a last resort use earnings management (Rajan and Winton, 1995). This is debt covenant hypothesis. This hypothesis also predicts that earnings management may be used not only to avail a loan but also at a lower cost at the loan inception stage. The debt covenant hypothesis is an implication of PAT. According to this, based on the cost of breaching a loan covenant, managers in self-interest make financial decisions to avoid these loan covenant violations (Holthausen and Leftwich, 1983).

The earnings management literature mainly studied the enforced loan covenants and earnings management during the life of a loan after the loans were sanctioned and disbursed[6]. Recent studies include Baag and Banerjee (2013) on a loan life at the loan inception stage with respect to earnings management. With respect to debt covenant hypothesis (DCH) and earnings management, a firm at the inception stage of a loan faces two opposing conditions: first, the firms may increase the earnings to show that the firm is less risky and get the loan approval with a better price. Francis et al. (2005) finds that better ratings loans are priced low. Second, the firms may show conservative earnings to build reserves as loan has a long life and needs more

[6]These include: loan covenant violation that has been corrected (Dichev and Skinner, 2002); violation that is waived but not corrected (Beneish and Press, 1993); violation that is not corrected (Duke and Hunt, 1990); debt service violation (Francis, 1990); bankruptcy (Asquith et al. 1994).

commitments. This leads to two common situations at the loan inception stage: A financially liquid tight firm will have more incentives to increase the earnings, and a financially stable firm will have more incentives for conservative earnings.

Similarly, according to the pecking order theory of capital structure (Donaldson, 1961, Myers and Majluf, 1984), in a developing nation like India, where banks are the best source of access to private debt, the borrowers applying for a loan and in a financially liquid tight position will opt for the first option to have access to loan finance, particularly, by just exceeding the minimum thresholds based on the core accounting covenants through which banks evaluate the capacity of the borrower to pay back the loans[7].

In the earnings management literature, Das and Shroff (2002) find that a distress firms uses leverage to inflate earnings. This has been supported by Gul et al. 2002. Jaggi and Lee (2002) provide evidence for this in the later stages of a loan life post disbursement. However, contrary to this, DeAngelo et al. 1994 in a study of distress firms find that there were no such earnings increase accruals. Similarly, Ahmed et al. (2002) find evidence for conservative earnings. Bharat et al. (2006) finds that firms manages its earnings in both conditions and in both directions but not necessary with respect to negotiate a loan. With respect to bank, Francis et al. (2005) find that banks are able to see through managed earnings. Janes (2003) evidences are against it. He also finds that covenants are not set tightly to save on negotiations cost.

Similarly, Baag and Banerjee (2013) empirically evidenced the debt covenant hypothesis with respect to resubmitted approved loan proposal in the Indian banks at the loan inception stage, using three core covenants spread used by the banks for approval of their loans with proper control for resubmission and non-resubmission of loan proposals at the time of approval of these loans using the distribution of earnings after management methodology and t-test statistics of the distribution. The finding of this study implies that borrowers in self-interest will avoid violating core covenants at the inception stage of a loan to get the loans approved. There is evidence of earnings management with respect to resubmitted loan proposal which are approved, in the

[7]While the trade-off theory (Kraus and Litzenberger, 1973) suggests that a firm with better financial position may opt for second option of conservative earnings using the cost-benefit factor. However, these will be more difficult to observe at loan inception stage since their financial ratios is expected to be well above the minimum thresholds based on the core accounting covenants through which banks evaluate the capacity of the borrower to pay back the loans. This is one limitations of our study with respect to earnings management at loan inception stage.

Indian context. As such, an inference could be drawn upon with respect to earnings management at the loan inception stage with respect to loan covenants, and hence, validation of DCH, at loan inception stage. Thus, borrowers in self-interest will avoid violating core covenants at the inception stage of a loan to get the loan approved which is an evidence of earnings management. The study also concluded that smaller is the loan size and firm size greater is the chance of defaults with in a period of three years. As such, banks should be extra careful with resubmitted loan proposals while approving these loans.

The present study has two appealing features. One, it uses a unique primary hand collected data set; and two, it uses private loan agreements. The study will have important implications for the Indian banks as banks use both quantitative and qualitative information of the borrower while approving a loan. The objective is to examine the relationship between the promoter's contribution in a loan account and earnings management with focus at the loan inception stage in Indian Banks. We are motivated by the fact that there is no empirical literature on this study with respect to resubmitted loan proposal at the loan inception stage.

In the literature with respect to financial reporting, research on earnings management had focused on three aspects: earnings manipulation by managers; how this is done; and the significance of these actions. The focus of our study is on the characteristic of the promoter's contribution based on the behaviour of the firm at the loan inception stage. According to the pecking order theory, banks in India are the best source of private debt. The firm's applying for a loan and in a financially tight position will have incentives to increase the earnings to have easy access to loan finance, particularly, by just exceeding the minimum thresholds based on the core accounting covenants through which banks evaluate the capacity of the borrower to pay back the loans. This is equally applicable under debt covenant hypothesis of PAT. Therefore, our main research objective is to empirically provide evidence on the relationship between promoter's contribution and earnings management based on validity of the debt covenant hypothesis with respect to resubmitted loan application at inception stage of loan.

Fan and Wong (2001), Burgstahler et al. (2006) have evidenced that promoter's contributions have impacted the quality of financial reporting while Coffee (2005) have shown that percentage of holdings effect the nature of irregularities. Further, very few studies have focused on these

such as ownership, opportunistic earnings management and control (Bhaumik and Gregoriou, 2010). The need for this study is imperative because of the implications it will have in the banks in terms of NPA, and credit policies. In this matter, our India focus is guided by the quality of financial reporting with incidence of earnings management (Sarkar et al. 2008), as well as the richness of the promoter's contribution data availability which is based on the concept of control and quite often not easy to track (Lins, 2003).

We empirically evidenced that the promoter's contribution with respect to resubmitted approved loan proposal in the Indian banks at the loan inception stage, is different with proper control for resubmission and non-resubmission of loan proposals at the time of approval of these loans using Mann-Whitney U test. The finding of this study implies that borrowers with higher promoter's contribution and unsecured loan in their control in self-interest will avoid violating core covenants at the inception stage of a loan to get the loans approved. There is evidence of earnings management with respect to resubmitted loan proposal which are approved. Banks should take this information into account while disbursing loan and framing credit policies.

1.2 LITERATURE REVIEW

The literature on loan contracts is a product of implications (Atkinson and Feltham, 1982) of the literature on agency theory by Jensen and Meckling (1976). Smith and Warner (1979) provide a list of such restrictions. These are: restrictions on dividend; restrictions on share purchase; merger activity restrictions; investment restrictions; asset disposition restriction; additional loan restrictions; and minimum working capital restriction[8]. Another important aspect of loan contracts is the accounting rules (AR). AR of a nation is complied with in preparing a financial statement. Accounting numbers from these are used in loan covenants subject to the accounting methods that are acceptable to the AR and the allowed flexibility in choosing such accounting methods under the AR (Frost and Bernard, 1989). Since breaching of loan covenants is assumed to be costly (Bratton, 2006, Day and Taylor, 1996), borrowers choose an accounting method within the AR that improves the financial statement in such a way that the accounting numbers avoid breaching loan covenants. In the literature, we find that loan covenants efficiently deal with the conflict between a bank and the borrower, even though these are costly (Smith and

[8] See also Leftwich, 1983.

Warner, 1979). However, theory till date has not been able to explain the use of accounting information in such contracts but provides examples of its use (Fogelson, 1978, Leftwich, 1983)[9]. The idea that accounting numbers are used in debt contracts is so well accepted that one can find references to it as an objective of financial information (Copeland and Weston, 1988, Butterworth et al. 1982).

In the literature, we also find several approaches that explain firm's choice of accounting method such as: personality theory (Shank and Copeland, 1973), adoption of innovation process (Zawawi and Hoque, 2010), income smoothing hypothesis (Hepworth, 1953), and Positive Accounting Theory (Watts and Zimmerman, 1986). PAT objective is explaining and predicting phenomena of accounting practice rather than prescribing solutions to accounting problems. Its focus is on studying management's incentives to support or oppose specific accounting practices. It is based on economic and finance theories for its conceptual framework and assumes that an individual's behavior as to accounting choices is dictated by its own self-interest.

In the literature, manipulating accounting numbers for incentives by managers has been defined as earnings management (Healy and Wahlen, 1998). The incentives cited has been stock market, signaling, concealing information, political, internal and making the manager look good (Verbruggen et al. 2008). Earnings management reduces transparency in a financial report by a firm but it is the theory of the firm's costly contracting approach which gives value to the earnings. According to this approach, owners and management are separate and management controls the firm while shareholders own the firm. There is a conflict of self-interest between the two and each behaves rationally in an opportunistic way without considering any benefit for the other. This approach is based on how much the outsiders are aware of the true earnings of the firm without the financial information. If this information has nothing to offer, then earnings will serve no purpose. This approach signifies that earnings management behaviour is opportunistic and is based on economic consequences. Thus, the firm will manage its earnings to avoid breaching loan covenants, ex ante; it will be to get the loan approved (hence, debt covenant hypothesis is validated).

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[9]Other examples include Kalay (1982) on dividend constraints; Malitz (1986) on the existence of debt covenants patterns and restriction on dividends, additional debt and sinking fund.

Accounting numbers are used in contracts because they can be observed and can be used by outsider for enforcing the contract. These contracts are termed incomplete because they are based on future economic outcomes which are not completely observable. These become valuable when adjustment in a contract is not possible making the firm to prefer avoiding breaching of the contract. This incompleteness of the contract and the opportunity to avoid breaching the contract which is based on the opportunity by the opposing party to refuse changes in the contract makes the accounting numbers important in terms of earnings (Williamson, 1981). Another reason for the opportunistic behaviour is that the contracting process itself is a costly process and renegotiation of the contract terms makes it more costly (Beatty et al. 2002).

According to the bank monitoring literature, if a bank sees that a covenant has been breached, it can enforce renegotiation which is costly and gives the bank bargaining power to put in other restrictions. On the contrary, according to the debt covenant hypothesis, earnings management says that banks covenants are more descriptive and more restrictive. These have restrictions like cross-defaults which make the firms more vulnerable to the consequences of a breach in loan covenants and firms as a last resort use earnings management (Rajan and Winton, 1995). This debt covenant hypothesis also predicts that earnings management may be used to avail a loan at lower cost. Similarly, the pecking order theory of capital structure (Donaldson, 1961, Myers and Majluf, 1984) assumes that in a developing nation like India where banks are the best source of access to private debt, the borrowers to have access to loan finance, may just cross the minimum thresholds of accounting covenants to avoid rejection.

In the earnings management literature, we find evidence of borrowers managing earnings after breach of loan covenants (Sweeney, 1994). We also find evidence that firms manage earnings before breach of loan covenants (Defond and Jiambalvo, 1994). In another study, Dichev and Skinner (2002) finds that there are more firms which just crossed the loan covenant restrictions threshold and few firms just below the loan covenant restriction threshold. But all this pertains to ex post loan disbursement period and the only empirical literature on the loan inception stage is by Baag and Banerjee (2013).

The implication of the literature show that managers at the inception of loan stage may use earnings management to avoid rejection of the loan as the cost of rejection are too high by just exceeding the minimum benchmark needed, which are based on the core accounting numbers,

which in turn are used in the core covenants as benchmark covenants through which banks evaluate the capacity of the borrower to pay back the loans. The incentives are more when the firm needs finance, and bank being a cheaper source of finance is preferred more. Thus, in a country like India where banks are a cheaper source of borrowing and sometimes only source of borrowing for small corporate firms, borrowing from the banks unintentionally compels the firm to reduce the accuracy of the financial statements. This view supports the debt covenant hypothesis.

In India, ownership and control rules by default rather than an exception with no conflicts with the manager (Roe, 2004). Similarly, reputation is important for firms that seek external finance at cheaper costs (Gilson and Gordon, 2003) and can engage in earnings manipulation (Fan and Wong, 2002) and association with business groups including negative spillovers and reputations (Masulis et al., 2009, Gopalan et al., 2007, Khanna and Yafeh, 2007). Our sample is more representative of firms in other emerging economies and help to evidence the promoter's contribution in bank loans at inception stage with evidence of earnings management.

1.3 HYPOTHESES

We hypothesize that the loan proposal which had been resubmitted and approved are able to capture the existence of the higher promoter's contribution. The null hypothesis for the test is that there exists no relation between loan covenant restrictions level and promoter's contribution level. The alternative hypothesis is that borrowers with high promoter's contribution in self-interest will avoid loan covenant violations to get the loans approved.

1.4 SAMPLE DATA

In this study, we have used 575 accounts data collected from three public sector banks in India for studying the relationship between promoter's contribution and resubmitted loan applications that were sanctioned and compared to a control group of accounts which had not resubmitted the loan applications. We have used the same sample of primary data used by Baag and Banerjee (2013). We name the group which resubmitted the loan applications as the Group-Yes (GY) and the control group which did not resubmit the loan application as Group-NO (GN). Our sample data includes 300 GN accounts and 275 GY accounts covering a period of 2001-2010.

The process of identifying the GY accounts are as follows: We went through the credit file of the accounts to find evidence of resubmission through loan forwarding applications, notes by the banks employee and personal interactions with the bank officers. This data pertains to the time of loan sanction. The limitation is that our selection of GY is also based on verbal confirmation of bank officers who choose to remain anonymous. At the same time, the advantage of our data is that we were able to capture this phenomenon which is not available in the secondary market.

1.5 OUTLINE

This study consists of two sections. The first section consists of five parts as introduction, literature review, hypothesis development, data and outline. The second section consists of methodology, method and results and conclusion along with the recommendation of future studies.

2.1 RESEARCH METHODOLOGY, METHODAND RESULTS

This empirical study follows the decision-usefulness approach which argues that the financial accounting research initial focus should be a consideration of the objectives of financial statements. The decision usefulness approach uses two types of empirical study: behavioural based and market based research. The latter's focus is on methodological issues; corporate disclosures; value relevance; tests of market efficiency; and fundamental analysis and valuation research.

Earnings management research uses methodological issues models besides its focus is on contract process of PAT. The earnings management uses three research methodologies: aggregate accruals methodology; specific accruals methodology; and distribution of earnings methodology.Based on the debt covenant hypothesis of PAT, we use the Mann-Whitney U test to validate that the two groups: GY and GN are not same. The discontinuity in the distribution has already been tested by Baag and Banerjee (2013) using the earnings management research method: the distribution of earnings methodology.

Another advantage of this method is that the sample selection is not based on realization basis. This means one does not require a sample where the earnings management has already been realized. But this also means that those earnings which have been successful and not known to us

are excluded. This selection problem is avoided by sampling those accounts whose owners have earnings incentives to achieve ex-ante loan approval at the inception stage by using resubmitted loan proposals with proper control (non-resubmitted loan proposals) to capture the full sample population. Other limitations of our study include: first, there is no evidence on the form of management of this accounts; second, the sample data does not cover the whole life of the loans of all the accounts. This may limit the external validity of the findings.

We use the objectives of the PAT of explanation and prediction to empirically validate that the two groups: GY and GN are not same. We use the statistical Mann-Whitney U test also known as the Wilcoxon two sample one tail test. To test the null hypothesis that there is no difference between these two groups, we use Mann-Whitney U test (one tail) on the whole sample to test whether our grouping variable is able to capture the existence of the promoter's contribution. This method has been used by Duke and Hunt (1990) to capture the existence of loan covenants to validate the erstwhile debt/equity hypothesis under PAT. Mann-Whitney U test is a non-parametric test which makes few assumptions of data typed used in a sample. These are sometimes also known as distribution free tests. It means, we make no assumptions on the nature of distribution of data. It works by ranking the data (Noreen, 1989). This ensures creation of null hypothesis that no difference exists between the groups. We present the results of our test in table 2.1 along with the mean ranks and the descriptive statistics.

Table 2.1

Test results showing difference in groups: resubmitted and non-resubmitted and relation between resubmitted group and promoter's contribution and promoter's contribution along with unsecured loan at the promoter's control.

Restricted promoter shareholding attributes*

Resubmission	PC	PC+UL	success rate
Z statistics	-1.898	-5.249	2/2
p value	0.029**	0***	
Significant	Yes	Yes	
Mean Ranks			
Group-Yes	302.27	326.58	
Group-No	275.92	253.71	
Descriptive statistics			
Mean	31.49	38.50	

Std deviation	24.04	25.15
Minimum	0.01	0.15
Maximum	99.63	99.63
Median	25.35	32.66

Grouping variable yes/no

* Definition of the restrictive loan covenants are given in appendix B

**Mann-Whitney U test (Wilcoxson two sample test)- one tail test: Null hypothesis -there is no difference in resubmitted and non-resubmitted groups. It is based on resubmission (dummy- 1 or yes) and non-resubmission (dummy- 0 or no) on covenant restriction

No of observations: yes= 300 and No = 275. Total observations = 575

** Success rate is based on P value < 0.05

The results of the test of null hypothesis that there is no difference between the two groups: GY and GN are presented in table 2.1. The tests show that the two groups based on promoter's contribution and promoter's contribution with respect to secured loan under its control are significantly different. Thus, the null hypothesis that there is no difference between the two groups is rejected. The finding of this study implies that borrowers with higher promoter's contribution and unsecured loan in their control in self-interest will avoid violating core covenants at the inception stage of a loan to get the loans approved. There is evidence of earnings management with respect to resubmitted loan proposal which are approved. Banks should take this information into account while disbursing loan and framing credit policies.

CONCLUSION

We used a primary sample data of 575 accounts from public sector banks with proper control for resubmission and non-resubmission of loan proposals at the time of approval of these loans. We used promoter's contribution margin and promoter's contribution with unsecured loan under its control as margin in these loans to study its relation with the loans. We used Mann-Whitney U test, after distribution of earnings after management methodology and t-test statistics of the distribution to validate the debt covenant hypothesis of the sample.

The study show that the two groups based on promoter's contribution and promoter's contribution with respect to secured loan under its control are significantly different. The finding of this study implies that borrowers with higher promoter's contribution and unsecured loan in their control in self-interest will avoid violating core covenants at the inception stage of a loan to

get the loans approved. Banks should take this information into account while disbursing loan and framing credit policies.

Future research could study these accounts to understand the management's choice of accounting method as well as the management generation and resubmission of loan proposals.

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Abstract:

We empirically evidenced that the promoter's contribution with respect to resubmitted approved loan proposal in the Indian banks at the loan inception stage, is different and high with proper control for resubmission and non-resubmission of loan proposals at the time of approval of these loans using Mann-Whitney U test. The finding of this study implies that borrowers with higher promoter's contribution and unsecured loan in their control in self-interest will avoid violating core covenants at the inception stage of a loan to get the loans approved. There is evidence of earnings management with respect to resubmitted loan proposal which are approved. Banks should take this information into account while disbursing loan and framing credit policies.

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