HT 19|04|2018
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No relaxation in new stressed loan rules, indicates central bank

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PUNE: The Reserve Bank of India (RBI) seems to have ruled out relaxations in its new stressed loan rules. RBI deputy governor N S Vishwanathan defended the rules announced in February, saying that they were aimed at improving credit culture and nudging lenders to be proactive in tackling early signs of stress.

The new rules stipulate that starting March 1, lenders must implement a resolution plan within 180 days for loan accounts of at least ₹2,000 crore, failing which the defaulting borrowers must be referred to insolvency courts. They also mandate banks to report defaults weekly to RBI, even if loan payments are delayed by a day.

The new framework, which had replaced earlier schemes such as strategic debt restructuring (SDR), 5/25 refinancing and Scheme for Sustainable Structuring of Stressed Assets (S4A), was seen as too harsh by bankers and some analysts. They have lobbied for extending the time period for resolution and also asked for a relaxation on the one-day default clause. But the demands have cut no ice with the central bank.

"The RBI believes that a focused framework for resolution of distressed borrowers which respects and enforces the sanctity of the debt contract is required to make sure that the excesses observed during the last credit cycle are not repeated and we don't end up in a similar situation a few years down the line," Vishwanathan said in a speech to graduates of National Institute of Bank Management in Pune.