No relaxation in new stressed loan rules, indicates RBI

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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 1 March, lenders must implement a resolution plan within 180 days for loan accounts of at least Rs2,000 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.

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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 Reserve Bank 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.

The new framework aims to reduce the arbitrage enjoyed by borrowers in taking loans from banks compared with raising funds from markets. Even a single day's default on a bond would prompt markets to penalize the borrower heavily, said Vishwanathan.

Indian banks are sitting on a stressed assets pool of over Rs10 trillion, of which gross non-performing assets are Rs8.86 trillion.

According to Vishwanathan, timely intervention should be second nature to a bank. He said the insolvency and bankruptcy code provided a time-bound legal framework for dealing with stressed assets.

"It does put pressure on the banking system but in the long term, we will see loan underwriting standards getting better as well as higher recovery," said Karthik Srinivasan, group head of financial sector ratings at Icra.

Mint 19/04/2018 P1