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RBI stands firm on tough NPA norms

Inability To Make Timely Payment Is A Sign Of Stress: Deputy Governor

TIMES NEWS NETWORK

Pune/Mumbai: The Reserve Bank of India (RBI) has stood its ground on new norms for non-performing assets (NPAs), stating that there was a need to restore the sanctity of the debt contract, "lest the debt becomes subordinate even to equity". The statement comes even as the government has been lobbying the central bank to roll back the NPA recognition guidelines where a one-day additional delay would result in the account being classified as being in default.

RBI deputy governor N S Vishwanathan said that a large number of borrowers, including some highly-rated companies, have failed on the one-day default norm. "This has to change. If borrowers fail to pay on the due date because of a cash flow problem, banks should see that as an early warning indicator warranting immediate action," Vishwanathan said at the 14th convocation ceremony of the RBI-run National Institute of Bank Management here.

Last month, the RBI tightened its norms for classifying a loan as an NPA. Under the revised guidelines, lenders have no room to accommodate a borrower who fails to repay on the stipulated date. All the restructuring schemes, which allowed banks to avoid bad loan classification by giving borrowers more time or smaller instalments, have been scrapped. Also, banks will not be able to relax NPA norms for borrowers who miss the deadline by a day or two. "Borrowers, too, should realise that they have to meet payment obligations and it is no more sufficient to pay up only by 60-90 days past the due date," he said. He added that if borrowers, with ability to pay on due date, delay routinely or because they see other arbitrage options, it must change.

'FAILURE TO PAY A WARNING FOR BANK'

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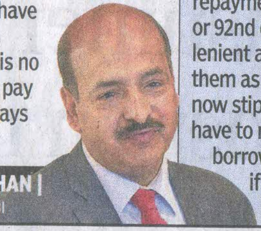

N S VISHWANATHAN | DEPUTY GOVERNOR, RBI

WHAT RBI HAS DONE | Earlier, borrowers got 90 days after missing a due date to make good a repayment and escape the NPA tag. But, if their repayment came on the 91st or 92nd day, banks were lenient and did not classify them as NPAs. The RBI has now stipulated that lenders have to mandatorily classify borrowers as defaulters if they miss the 90-day window

Vishwanathan pointed out that if the default was on a bond, the company's rating would be downgraded, the yields on the bonds would shoot up, cost of further financing would increase, and suits would be filed by investors. "So far, defaults in bank borrowings have not attracted similar reactions," Vishwanathan said. This has resulted in the debt contract continuously losing its sanctity, especially where the borrowing is large, he said. Highlighting the need for early action, Vishwanathan said that banks have a better chance of recovering loans when the borrower's business is a going concern.

The deputy governor projected data to show that it takes an average of 4.3 years to recover a bad loan in India as compared to about six months in Japan and a year in the US. "Timely intervention should be second nature of every bank," he added. Using the data, he also showed that due to delay, the recovery rate in India is only about 27% against a best of over 90% in Japan.

The deputy governor said that it cannot be business as usual for banks and the new framework seeks "a fundamental change, for the better, in behaviour of lenders and borrowers".