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Arun Jaitley

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Banks to raise provisioning for another bank's NPAs

By [Sugata Ghosh](#) & [Sangita Mehta](#), ET Bureau | Updated: Dec 21, 2015, 05:42 AM IST

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Mumbai: One bank will have to pay for a sticky loan of another bank if they have lent to the same company.

A new rule, that is believed to be underway, will force a bank to take a knock on earnings even if the corporate borrower is paying on time but is blacklisted as 'non-performing asset' (NPA) by any other lender.

The proposal which was recently discussed between senior bankers and regulatory officials may impact earnings of many banks as they provide more on loans that are standard and well-behaved on their books but are irregular and NPA with some other bank.

About 15 years ago, a similar rule was in vogue: once a bank tagged a loan as NPA, all other banks with exposure to the company had to do the same even if there was no default. The rule, which was then considered harsh, was scrapped to give lenders more elbow room.

Now that old rule is likely to resurface, albeit in a different way, as bad loans cast a long, grim shadow on books of banks. "The proposal aims to protect banks from sudden blow that's inevitable when a large account turns NPA. If a company has missed interest payments to one bank which is treating the account as NPA, it is evident that borrower is either facing problems or promoters have misused the money. Now, if the cash flow problem persists, it's a matter of time it would default to other banks as well. These banks will then have to categorise the loan as NPA and provide for it. This extra provisioning will act as a cushion against future defaults," a person familiar with subject told ET.

Banks are required to make a small (well below 1 per cent) provisioning on standard loans, but have to progressively raise the provisioning amount with time as the borrower fails to regularise an account. Such provisioning rises from 15 per cent for 'sub-standard asset' - the first category of NPA when interest on loan is overdue for 90 days - to 100 per cent for a loss or irrecoverable asset.

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For a bank, the accounting cushion or the provisioning level for the new category of loans — which are standard in its books but NPA with another lender - could be around 4-5 per cent. With bad and restructured loans piling up to 10 per cent of banking assets, there are growing concerns within the Reserve Bank of India and government as well as among investors about the health of Indian banks, particularly that of state-owned lenders. In recent years there has been a spate of rules that have tightened prudential and reporting standards while empowering banks to salvage loans.

For instance, last year, RBI had said that in cases where banks fail to report a "special mention account" — where money is outstanding for 30 to 90 days after due payment date — to the Central Repository of Information on Large Credits (CRILC) or conceals the actual status of the account or evergreen the account, banks will be subject to accelerated provisioning (of 25 to 40 per cent) on such accounts and face supervisory action. Also, in bringing about some discipline among lenders, the regulator said that if a bank, after agreeing to restructure a loan, changes stance or delays in executing the package, it will have to make accelerated provisions.

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₹ 2,000.00	103	
₹ 2,000.00	100	
₹ 2,000.00	98	
₹ 2,000.00	97	
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