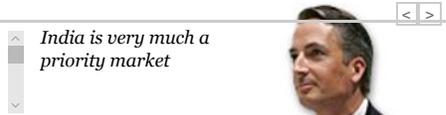


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RBI not to place restrictions against banks if NPAs rise due to cleanup of books

By [Sangita Mehta](#), ET Bureau | Dec 28, 2015, 04.00 AM IST Post a Comment

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MUMBAI: The Reserve Bank of India has given an informal assurance to [commercial banks](#) that it will not place restrictions against these lenders if their stressed loans increase sharply on account of cleaning up their books as it has directed.

This comes as a relief to the banks that were worried that [RBI's](#) mandate to downgrade a chunk of loans given to errant borrowers would impact their earnings and result in prompt corrective action, said two senior bankers, who did not want to be named.

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RBI had earlier this month identified a list of 150 truant borrowers and directed banks to downgrade these companies by the end of this financial year. The directive implied that the banks would have to classify some standard loans as substandard loans and make higher provisions on them.

In order to discipline banks, RBI initiates prompt corrective action (PCA) on banks that either have bad loans above 10% of total loans or whose return on assets falls below 0.25% and capital adequacy ratio drops below 9%. In such cases, several restrictions are placed on banks on opening new branches, hiring new employees and giving dividend.

"RBI has conveyed that it will not initiate PCA on banks for at least one year if banks bleed on making high provisions on list of borrowers it has asked each bank to downgrade by the end of this fiscal," said one of the officials cited earlier.

This is a special measure taken by RBI to encourage banks to clean up their books. The move comes at a time when RBI governor Raghuram Rajan has set a deadline of March 2017 for banks to clean up their balance sheets. It is estimated that earnings of a number of banks — particularly mid-sized state-run banks — will be hit if they downgrade all the accounts listed by RBI as they would be required to set aside more money as provisions.

In an informal meeting with senior RBI officials, top management of banks had expressed the fear that the performance of banks would slip if 150 truant borrowers were to be downgraded. "Already poor demand for loans and growing number of defaults by borrowers has dented banks' earnings," said another official.



"An unexpected mandate to downgrade commercial accounts from RBI will no input more pressure on banks' profitability," he said. In recent months, RBI has placed PCA on [Indian Overseas Bank](#) BSE 1.20 % after its share of bad loans crossed 10%. The bank is restricted from opening new branches or recruiting new staff. Stressed loans, including restructured loans and those on which borrowers defaulted, swelled to 11.1% of all loans in March 2015 from 9.2% a year ago.

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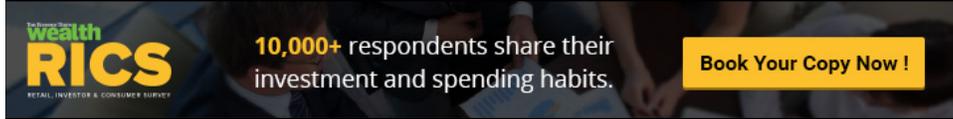
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