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# Banks wary of receiving 15% cash while selling bad loans to ARCs

Banks are wary of selling because of the way they are compensated for it

By: [Pranay Lakshminarasimhan](#) | Published: March 2, 2016 12:20 AM

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Though the government's decision to allow sponsors of asset reconstruction companies (ARCs) to own up to 100% stake in them was received well by the market, banks are still wary of receiving only 15% cash upfront while selling a bad loan to an ARC, the rest being subject to recovery of the loan.

In his reaction to the announcements made in the Budget, Siby Antony, managing director and chief executive officer at Edelweiss Asset Reconstruction Company, told FE that he believed the removal of the limit on sponsor ownership in an ARC would result in more money in the hands of ARCs, thereby enabling them to buy bigger loans. Phoenix ARC, the asset reconstruction arm of the Kotak [Mahindra](#) Group, has bought loans for around R1,000 crore in the current fiscal year, while Asset Reconstruction Company (India) has spent slightly less than R500 crore this fiscal towards procurement of loans.

Even as ARCs can now approach banks to buy bigger bad loans from them, banks are still wary about selling because of the way they are compensated for it. A senior official

at Bank of Baroda said that despite having around R5,000 crore of loans to sell, the bank hasn't sold anything to ARCs in the current fiscal year. 

“We are not very keen on selling a loan and getting 15% cash for it. The rest are SRs (security receipt) which are subject to recovery. And we still have to pay the ARC annual fees for maintaining the account,” the official said.

The bank is now looking for an ARC which is willing to buy the loan for a full cash compensation. “We are looking to get someone to buy it at say a 50% discount or something like that and pay the entire cash upfront,” the official said.

When asked his views on the matter, Eshwar Karra, CEO at Phoenix ARC, said that full cash upfront is the way to go.

“We also prefer the all-cash model. If you look at our history, we have always preferred paying full cash upfront for purchase of NPAs as against the 5:95 or 15:85 model. Since Bank of Baroda has adequately provided for all its loans, it is one of the banks we are interested to buy from.” he said.

“In the 15:85 model, the bank is getting paid 15% upfront and then has to wait for the loan to be recovered. If it is recovered, everyone gets their dues. However, if the ARC does a bad job at recovery, the bank and the ARC books a loss on its investment,” Karra added.

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