RBI reviews steps taken by banks to clean up books

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At a meeting, lenders and officials brainstorm on the way forward to deal with bad loans

Raghuram Rajan, RBI Governor

Mumbai, January 18:

With banks staring at the March 2017 deadline to purge their books of bad loans, the Reserve Bank of India on Monday reviewed the functioning of various mechanisms to achieve this goal, including the Joint Lenders' Forum, Strategic Debt Restructuring Scheme and sale of assets to asset reconstruction companies.

The stressed assets (gross non-performing assets plus restructured standard advances) situation is becoming dire for public sector banks. This comes in the backdrop of slowing factory output and lack of investment appetite in the private sector.

According to a recent report on banking sector outlook by credit rating agency ICRA, as of September-end 2015, public sector banks' stressed assets touched 12.8 per cent. Private sector banks were relatively better off, with their stressed assets at 4.3 per cent.

The RBI, in a statement, said: "The meeting took stock of the way these tools (Joint Lenders' Forum Mechanism, Flexible Restructuring of Long Term Project Loans, Strategic Debt Restructuring Scheme and regulations on sale of assets by banks to Asset Reconstruction Companies) are being used by the banking system and the improvements needed to sharpen their efficacy and ease of use."

Several suggestions were made by the participants on the way forward and this will be examined.

At the meeting, the RBI was represented by top officials including Governor Raghuram Rajan, Deputy Governors R. Gandhi and SS Mundra, as well as senior officials from the concerned regulation and supervision departments.

The financial sector was represented by senior executives of major banks, non-banking finance companies (NBFCs) and asset reconstruction companies (ARCs).

At a post policy conference call on December 1, Rajan said "…my hope is as the banks recognise more of what needs to be recognised and they deal with the stressed assets, remember stressed assets is an important part of banks' balance sheet, that they will be able to bring that down and not just by provisioning but also by putting some of these assets back on track so that they can be elevated back to performing assets over time."

"…So this is underway and we hope that over the span of the next year, I want to put something like March 2017 on the table as when we hope that the clean-up will have been done."

Regulatory steps

In the last couple of years, the RBI took several regulatory steps, which were aimed at instituting a mechanism for rectification, restructuring and recovery of stressed assets.

The regulatory steps involved the preparation of a corrective action plan by the Joint Lenders' Forum (JLF) for distressed assets, periodic refinancing and fixing a longer repayment schedule for long-term projects as part of flexible structuring.

The steps also entailed extension of the date of commencement of commercial operations in the case of project loans to infrastructure sector without these loans being labelled as non-performing advances, subject to certain conditions; strategic restructuring of debt involving the provision to convert debt into equity.

Vibha Batra, Senior Vice-President, ICRA, observed that the estimated stock of weak assets remains high at 2-2.5 times gross non-performing assets.

"Management of weak assets through refinancing, recovery/revival, sale of weak assets and making provisions remain critical.... Low provisioning cover (in relation to weak assets) remains a credit concern," she said in a report.

The report said the borrowers' overleveraged balance-sheets and weak earnings are making revival difficult. Intervention from the government may help in recovery / revival from infrastructure and construction space.

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