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Banks don't need to wait 90 days to start loan recovery

BY DHEERAJ TIWARI, ET BUREAU | UPDATED: MAY 11, 2017, 12.18 AM IST

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NEW DELHI: Banks can initiate [loan recovery](#) proceedings without waiting for an account to be formally classified as non-performing, as the latest amendments to banking rules allow for faster resolution of their bad debt problem, a senior government official said.

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Under [Reserve Bank of India](#) rules, a loan becomes non-performing if the interest or instalment of principal remains overdue for more than 90 days. "Under the ordinance, we have clarified that the default will be considered as per bankruptcy laws, which means if the payment is missed it turns into a default the next day," said the official.

The Cleanup Act

AMENDMENT IN BANKING REGULATION ACT ENSURES FASTER RESOLUTION

Banks can file for resolution before an account turns into an NPA

Banks to go by definition of 'default' under Bankruptcy Code

IBA & RBI TO IDENTIFY CASES FOR RESOLUTION

BANKS CAN PLAN THEIR remedial action in advance

RBI CAN ISSUE DIRECTIONS to banks for resolution of stressed assets

CREDITORS' panel to decide on revival plan or liquidation within a period of 180 days

No need to wait for 90-day period for account to turn into an NPA

This provision was inserted into the Banking Regulation Act through last week's ordinance so that banks can plan their remedial action in advance.

India's banks, especially staterun ones, are sitting on a mountain of bad debt, hurting their financial performance and ability to lend. While issuing the ordinance — the amendments empower the [RBI](#) to issue directions to banks for resolution of stressed assets — the government said it is committed to expeditious resolution of stressed assets in the banking system.

If there is a case where lenders are of the opinion that they need to look at other measures, including change of management, to

recover their arrears from a defaulting company, they can now go ahead without waiting for the 90-day period to end before initiating the resolution process. "It is not that they (banks) will know only after the 90 day period that the account is stressed," he said.



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The Insolvency and Bankruptcy Board of India (IBBI) said the ordinance goes by the definition of 'default' as in the Insolvency and Bankruptcy Code. This means even if an asset is not classified as an NPA, it can still be taken up for the resolution process.

"The ordinance clearly states that, and there is no ambiguity," said IBBI chairperson MS Sahoo. It is up to the banks to take a call whether it is the right time to really invoke bankruptcy or other options, he added.

Some experts, however, sought more clarity.

"The Reserve Bank should clarify what should be the provisioning requirement for companies going under bankruptcy in the first day of default, in the event a bank decides to file it the same day," said Sapan Gupta, partner at law firm Shardul Amarchand Mangaldas & Co.

Earlier this week, a senior finance ministry official said the RBI will identify cases of bad debt to be taken up for resolution under the new NPA ordinance in consultation with the Indian Banks' Association.

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