

RBI Announces New System To Settle Bad Loans

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Story Highlights

RBI sought to push more large loan defaulters toward bankruptcy courts

New rules aimed at creating harmonized, simplified generic framework: RBI

Central bank abolished half a dozen existing loan-restructuring mechanism

Mumbai: The Reserve Bank of India (RBI) late on Monday tightened its rules around bank loan defaults, seeking to push more large loan defaulters toward bankruptcy courts and abolishing half a dozen existing loan-restructuring mechanisms, in its latest bid to accelerate resolution of the bad loans problem at the country's banks.

The new set of rules are aimed at creating a "harmonised and simplified generic framework" for resolution of stressed assets in view of new bankruptcy regulations, the Reserve Bank of India said late on Monday.

After enacting its first comprehensive bankruptcy regime in 2016, the government last year gave the RBI more powers to push lenders to deal with the nearly \$150 billion in troubled debt at banks, which has stymied new lending and slowed economic growth.

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The new system will force lenders to identify and tackle any stressed-asset accounts more rapidly, the regulator said.

Under the new rules, banks will have to file for insolvency proceedings against loan defaulters with RS 2,000 crore (\$311 million) or more if a resolution plan is not implemented within 180 days of the initial occurrence of default, the RBI said.

It warned that any failure on the part of banks to meet the prescribed timelines, or any actions they take to conceal the actual status of accounts or evergreen stressed accounts, will expose banks to potential monetary penalties and other actions.

It also tightened rules around resolution plans, saying any such process involving restructuring or change in ownership for large accounts with loans of Rs 100 crore or more will need independent credit evaluation by credit rating agencies that are authorised by the RBI.

Loans of Rs 500 crore or more will need two such independent evaluators, the RBI said.

The central bank said that all prior schemes, including the popular Strategic Debt Restructuring Scheme, the Scheme for Sustainable Structuring of Stressed Assets, and the Corporate Debt Restructuring Scheme, will be withdrawn with immediate effect.

"All accounts, including such accounts where any of the schemes have been invoked

but not yet implemented, shall be governed by the revised framework," the RBI said.

Some of the current loan restructuring rules have been criticised for helping to evergreen bad loans. The debt for equity swap programme, one of the central bank's most popular plans, has had little success, with creditor banks struggling to find new buyers for the companies they tried taking over by exchanging part of the debt for equity.