As NPAs rise, banks strengthen credit monitoring departments

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Banks are strengthening their credit monitoring departments to ensure that loans don't get into restructuring mode, with attendant provisioning consequences, as the Reserve Bank of India's revised framework for resolution of stressed assets does not brook even a day's default.

SMA-0 accounts

Under the revised framework, which was unveiled on February 12, banks are expected to pick up signs of incipient stress even before they get classified as special mention account (SMA)-0, say bankers.

SMA-0 accounts are those which throw up early warning signals of stress and where the principal, or interest payment, or any other amount – wholly or partly – is overdue between 1-30 days.

Accounts are classified as SMA-1 and SMA-2 where the principal or interest payment or any other amount, wholly or partly, is overdue between 31-60 days and 61-90 days, respectively. When interest and/ or instalment of principal remain overdue for a period of more than 90 days, a loan is classified as non-performing.

"We are now very particular in assessing the cash flows, ensuring that a project gets implemented properly. We are building a very strong credit monitoring team.

"In between the credit sanction and the recovery departments, the credit monitoring department (CMD) follows up on all SMA accounts. In the first phase, we are going to cover (under monitoring) all above ₹100 crore accounts," said Union Bank of India Managing Director and Chief Executive Officer, Rajkiran Rai G.

The moment the loan sanction happens, the public sector bank's CMD will monitor for compliance purpose whether all sanction conditions are fulfilled or not. And then it will monitor whether all (project) assumptions relating to sale/ turnover are being achieved or not. So, the accounts will be tracked on a monthly basis.

"Resolution plans, including restructuring, under the revised framework kick in from day one of loan default. So, we should be able to identify an account even before it becomes SMA-0. We are building mechanisms to recognise this," said a top executive of another public sector bank.

Rai observed that the RBI rules are so strict now that unless banks build mechanisms for early identification of stress, it will be very difficult to lend in future.

"It is not that we did not monitor accounts earlier, but it started from SMA-0 onwards. Now, much before an account slips into the SMA-0 category, we should be able to pick up signals of stress.

"We need to build very strong monitoring mechanism…By April-end, we will have the mechanism implemented," said the Union Bank chief.

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