RBI may loosen NPA norms to let banks breathe easy

BY DHEERAJ TIWARI, ET BUREAU | UPDATED: APR 16, 2018, 12.26 PM IST

NEW DELHI: The Reserve Bank of India (RBI) may relax some of the stringent norms for treatment of bad loans that it announced in February without diluting their spirit, said two officials aware of the development.

The finance ministry has made a case for providing some relief, especially for small and medium enterprises, given that the tighter rules could force defaulters into rapid bankruptcy, which could dent jobs generation, they said.

The one-day, non-performing asset (NPA) classification norm may be extended to 30 days and the requirement that a resolution plan has to be approved by all lenders could be lowered to 75%, they said. This will mean that only if any amount is due for more than 30 days will it be considered a default.

Under new rules announced by RBI in February, even a one-day delay would be considered a default. “The RBI is having a relook — we expect some relief without diluting the spirit of the norms, which is to ensure that promoters do not… delay the resolution process through IBC (Insolvency and Bankruptcy Code),” he said.

Both officials said this would not constitute a climbdown by the RBI, but a realignment of its position without pushing banks to the brink.

The central bank had defended the norms before a Rajya Sabha committee on subordinate legislation with regard to different aspects of NPAs last week.

Giving More Time

Current rules require a default of even one day to be recognised

RBI has also abolished all restructuring schemes

RBI could increase this time limit to **30 days**

Govt and bankers **fear the two together** could push more cos into bankruptcy

Resolution plans could be cleared **by 75% vote of creditors**

CHANGES DO NOT DILUTE SPIRIT OF EXISTING REGULATIONS

The RBI reasons that the insolvency law was working fine and there was no need for any other mechanism.

“Their (government) view is that it should not lead to job losses, mostly in small and medium enterprises. It is expected that the RBI may soften its stance before the end of this month,” the second official said.

The RBI had on February 12 scrapped the corporate debt restructuring (CDR), strategic debt restructuring (SDR), scheme for sustainable structuring of stressed assets (S4A) and the joint lenders’ forum (JLF) that were used by banks to restructure debt defaults as the IBC process had settled into place.

Simultaneously, the new ‘Resolution of Stressed Assets-Revised Framework’ called on lenders to identify assets “immediately on default”, beginning with loans on which any amount was due from one to 30 days. Principal economic adviser Sanjeev Sanyal is said to have issued a strongly worded note criticising the changes, especially the one-day rule. The new rules also require banks to inform the Central Repository of Information on Large Credits (CRILC) on a weekly basis of defaults by all borrowers in excess of `5 crore. This could mean that payments delayed for even a few days could spiral into a bigger problem for borrowers if the default status became public.

The government and bankers are of the view that the new norms would lower the chances of reviving stressed assets even further. Banks have also said that in some cases payments from various state authorities were delayed and allowing a 30-day period will not dilute the spirit of the guidelines. The other relief, the officials said, may come in the form of common guidelines issued for resolution of stressed assets that will have the Indian Banks’ Association’s approval.

RBI had directed that all lenders must put in place board-approved policies for the resolution of stressed assets. “Now every board could have a different policy and that would impact cases of consortium loans,” said one of the officials cited above. The possibility of common or broader guidelines is being examined, he said.

With regard to power sector loans, lending consortiums include non-banking financial institutions (NBFCs) such as Power Finance Corp and these new broader guidelines may also take care of them. “The existing guidelines exclude NBFCs,” he said.

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