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# 56 lenders to sign inter-creditor agreement in a few days

BY [SANGITA MEHTA](#), ET BUREAU | UPDATED: JUL 11, 2018, 08.23 AM IST

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As many as 56 lenders are set to sign an [inter-creditor agreement](#) in a few days which will prohibit dissenting creditors from making an easy exit.

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The agreement — based on a recommendation by the [Sunil Mehta committee](#) that looked into resolution of stressed assets — aims to deal with [bad loans](#) that banks must resolve before next month end under a February 12 [RBI](#) circular. Banks will have to refer unresolved loans to the [bankruptcy](#) court and they fear the asset value may erode if there are no buyers at bankruptcy court.

The agreement says if 66 per cent of lenders by value agree to a resolution plan, it would be binding on all lenders. The dissenting creditors will, however, have the option to sell their loans to other lenders at a discount of 15 per cent to the liquidation value, or buy the entire portfolio paying 125 per cent of the value agreed under the debt resolution plan by other lenders.

The agreement, a copy of which was seen by ET, says each resolution plan would be submitted to an overseeing committee comprising experts from the banking industry. For dissenting creditors, the agreement says the “lead bank has the right, but not the obligation, to arrange the buyout of the loan facilities at a value that is equal to 85 per cent of the liquidation or the resolution value —whichever is lower.”

<b>Clearing the Air</b>	<b>THE AGREEMENT</b>	
	If 66% of lenders by value agree to a resolution plan it would be binding on all lenders	Dissenting creditors can sell their loans at a discount of 15% of the liquidation value
		Alternatively, they can buy the entire loan at 125% of value agreed in plan

However, “if the lead bank does not arrange for a buyout, the dissenting lenders shall have the right, but not the obligation, to arrange for buyout of the facilities of all the other lenders at a value that is equal to 125 per cent of the liquidation value or the resolution value — whichever is higher.”

Dissenting creditors can also exit by selling their loans to any entity at a price mutually arrived at between the lender and buyer. The agreement has a standstill clause wherein all lenders are barred from enforcing any legal action against the borrower for recovery of dues. During the standstill period, lenders are barred from transferring or assigning their loans to anyone except a bank or finance company. But it is not clear if a loan can be sold to an asset reconstruction company during that period.



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The standstill provision will be operative for 180 days from the reference date — the RBI had asked lenders to resolve their restructured loans within 180 days beginning March 1 or refer those to the bankruptcy court. However, the provision would not prevent lenders from acting against borrowers or directors for criminal offence. Lenders are in the process of getting this inter-creditor agreement approved by their boards.

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