

Banks agree not to undercut each other on loans

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Uniting banks Interim Finance Minister Piyush Goyal (right) on the way to a meeting with the heads of banks, along with Sunil Mehta, Non-Executive Chairman of PNB, in New Delhi on Thursday - Kamal Narang

Goyal meets heads of private, public lenders to arrive at a model for ‘inter-creditor’ pact

NEW DELHI, JULY 5

Public and private sector banks on Thursday brainstormed to firm up a model “inter-creditor agreement” (ICA) that would set the ground rules under which consortium lending and multiple-banking arrangements will be managed in the coming days.

The boards of banks are likely to consider the model agreement for adoption in the next few days, and it is expected to go “live” in the banking system by the month-end, Sunil Mehta, Non-Executive Chairman, PNB, told reporters here. Interim Finance Minister Piyush Goyal had an interaction with banks’ chief executives for over an hour.

Briefing reporters on the day-long deliberations that the bank chiefs had with their legal heads and other senior officials, Mehta said the discussion focussed on ‘Project Sashakt’, and how to strengthen banks in terms of credit capacity, credit culture and portfolio.

‘Project Sashakt’ refers to a recently unveiled five-pronged strategy to deal with non-performing assets.

Tackling glitches

An ICA — which will be voluntary for the banks — is expected to iron out the problems faced in consortium lending, help the banks work as a team and not in silos, and remove procedural glitches to ensure timely availability of credit to enterprises.

Mehta said the banks also agreed that they would be guided by the 66 per cent norm. This means the inter-creditor agreement will stand if 66 per cent of the lenders in a consortium agree to it.

The biggest benefit flowing from an ICA is that bankers will not try to “undercut” each other and in the process lead to everyone losing, said the CEO of a private sector bank. Secondly, all banks will speak in a single voice under consortium or multiple-banking arrangements.

This was absent earlier, another banker remarked.

Common framework

Bankers who attended the meeting said an ICA is the need of the hour.

Certain borrowers tend to pitch one bank against another in the consortium or multiple-banking arrangements, they said.

A common framework between the lenders will end such practices, they observed.

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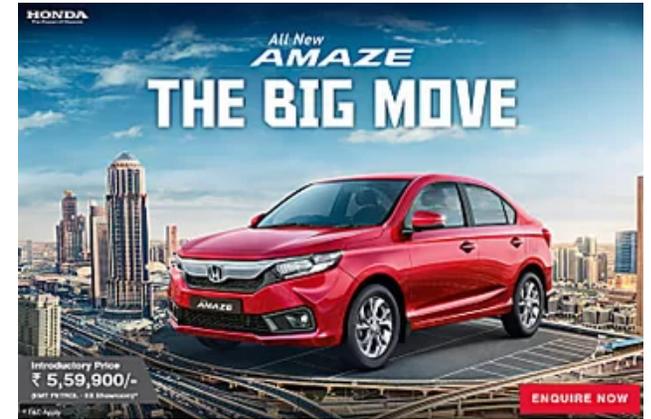
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The practice of all members of a Consortium signing an Inter-Creditor Agreement (ICA) was very much in existence until RBI issued guidelines permitting loose multiple-banking arrangements requiring no coordination amongst the several Banks providing credit to a single borrower.

The ICA should have, for purpose of preventing diversion of funds the provision for the following in addition to other conditions: (a) Only the account with one Bank may, as per mutual agreement, be the operative account, and an account with a Bank which is not a member of the consortium. (b) No consortium member should allow drawings in cash except upto the amount of Petty Cash, (c) Remittances to other Banks or Finance Companies or credits to others' accounts with the same Bank may be restricted to payments as due to suppliers of inputs as per the Business Plan, including (contd. in the next posting)

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