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SBI chief calls for relook at consortium lending

BY [JOEL REBELLO](#), ET BUREAU | AUG 20, 2018, 06.53 PM IST

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State Bank of India Chairman [Rajnish Kumar](#) has called for a `relook' at the [consortium lending](#) model of [banks](#) that delays decision making, which if taken forward could end a practice that was in vogue for decades and partly blamed for the mess in the entire banking system at the same time.

"Consortium banking is increasing risks because of delays in decision making," Kumar told industry captains at the [FICCI](#) National Executive Committee meeting. "If there are 28 banks taking no objection certificates from them takes a lot of time which has created its own problems and not led to faster decision making. We need to put in order and relook at this consortium or multiple bank model."

Indian banking system dominated by state-run ones with nearly three-fourths of the market share is weighed down by [bad loans](#). Most of the banks have similar [loan](#) books when it comes to big project loans. Even smaller banks which did not have the wherewithal to evaluate the project risk ended up cutting cheques because of the consortium models.

[SBI](#) will also streamline its loans away from consortium lending by pulling out of some consortiums or take more share of loans from some banks so that the number of banks is reduced, Kumar said, without giving details.

Kumar's comments come even as more than a dozen of lenders led by SBI have signed inter-creditor agreements to deal with speedy resolution of stressed assets. As per the terms of the agreement, if 66% of the lenders agree to a resolution plan it would be binding on all lenders. A dissenting creditor could sell its loan at a discount of 15% of the liquidation value to other lenders or buy the entire loan at 125% of the resolution plan agreed to by other lenders.

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Kumar said banks need to come together to deal with stressed loans and large project loans but lending in a consortium is actually an hindrance in small ticket loans.

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"For a Rs 1000 crore loan we do not need 10 banks which is a case sometimes. It just makes the task of decision making more difficult. Small loans should be done in 21 days. There is no excuse for delays. It is only in large project loans where multiplicity of lenders is needed because due diligence requires more time," Kumar said. SBI currently does not get into a consortium if the total loan size is Rs 500 crore or less.

Kumar said banks, industry, government and courts all played their part in the pile up of stressed loans.

"There have been instances where the funds given by banks were not used for the purpose it was meant for," said Kumar. "The relationship between banks and borrowers is based on trust. There have been several instances where this trust was breached. Now we have learnt our lessons, we will now trust but only after we verify which was not probably happening earlier."

As the chief of India's largest bank, Kumar controls more than 20% of loans in the market. He said banks will now have to move to cash flow based lending. "Managing liquidity will be important going forward. Banks will have to make decisions dynamically based on borrowers cash flows. They cannot take six months to decide on a loan. This kind of delayed response was also a factor in aggravating NPAs," Kumar said.

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