Meet with RBI: Banks want to keep NPAs out of court

By: Shritama Bose | Published: December 20, 2018 1:55 AM

Chiefs of State Bank of India (SBI), Punjab National Bank (PNB), Union Bank of India, IDBI Bank, Central Bank of India and Dena Bank attended the meeting on December 13.

Meet with RBI: Banks want to keep NPAs out of court(Illustration: SHYAM)

Anxious that provisioning requirements for stressed assets will go up, bankers are understood to have asked the Reserve Bank of India (RBI) to relax the rules for out-of-court resolutions as envisaged in the central bank's February 12 circular.

Heads of public sector banks (PSBs) who recently met with RBI governor Shaktikanta Das suggested the threshold level of 100% of votes needed to approve a restructuring plan to prevent an account being referred for the insolvency process be lowered to around 60-66%.

As of now, all lenders in a consortium must agree to a restructuring plan if an account is to be kept away from the insolvency process.

Moreover, they asked for eight months time—rather than the current 180 days—to try and find a solution for a bad loan before it is referred to the National Company Law Tribunal (NCLT) under the Insolvency and Bankruptcy Code (IBC). This relates to accounts worth Rs 2,000 crore or more.

Chiefs of State Bank of India (SBI), Punjab National Bank (PNB), Union Bank of India, IDBI Bank, Central Bank of India and Dena Bank attended the meeting on December 13.

"The February 12 circular says any restructuring which is to be done outside the NCLT must have the approval of 100% of banks. But the IBC says 66% is enough. Even in the earlier joint lenders' forum (JLF) system, it was 75%, which was subsequently brought down to 60%," a senior banker said.

The late-night circular on February 12 had said that if a company, to which banks have an exposure of `2,000 crore or more, was late on repayments even by a day, lenders must formulate and implement a resolution plan. If that failed to happen within six months from the date of default the cases would need to be referred to the NCLT for insolvency proceedings. The same circular had also withdrawn all existing debt restructuring schemes for stressed accounts.

Following the February 12 circular, a clutch of power companies to which banks had an aggregate exposure of around Rs 70,000 crore turned non-performing assets(NPA) in August. However, insolvency proceedings against them have not been initiated because the Supreme Court (SC) has directed a status quo in the matter. This has given banks more time to look for out-of-court resolutions for 11-odd power companies.

The February 12 circular also became one of the issues which led to a standoff between the government and the RBI during the last few months of former governor Urjit Patel's tenure before he resigned on December 10.