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Market Watch

For no fault of theirs, PMC depositors may be in default

BY SALONI SHUKLA & ASHWIN MANIKANDAN, ET BUREAU | OCT 17, 2019, 07.39 AM

IST

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MUMBAI: Thousands who service their loans through accounts at Punjab & Maharashtra Co-operative (PMC) Bank are staring at the risk of getting shut out of credit markets or increased cost of borrowings for no fault of theirs.

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These depositors at [PMC Bank](#) are unable to pay loan instalments due to a Reserve Bank of India-imposed cap on withdrawals, leading to defaults on repayments. They are likely to be classified as defaulters by credit information bureaus, which will make it difficult to get new loans.

“There is definitely a second-order effect if customers are unable to withdraw their own money and service upcoming credit payments (whether) it's on a credit card or some [EMI](#). This could also impact businesses holding current accounts with the bank,” said Manu Sehgal, the business development leader at [Equifax](#), a credit information bureau. “Payment defaults would obviously lead to a downgrade in the credit score.”

On September 23, the RBI suspended PMC Bank's board after noticing major financial irregularities, and capped withdrawals at Rs 1,000. The withdrawal limit has later been raised to Rs 40,000, after finance minister [Nirmala Sitharaman](#) discussed the matter with RBI governor [Shaktikanta Das](#).

Data with the bank show that it has 16 lakh depositors with total deposits of Rs 11,617 crore as on March. More than 60% of its customers had small deposits of around Rs 10,000 each in the bank.

Customers who had taken a loan from PMC Bank and are unable to repay because of the withdrawal cap would also suffer as the default would get reflected in their bureau scores, said Parijat Garg, an industry expert and a former vicepresident at [credit bureau Crif High Mark](#). “In the absence of any communication from the bank or the regulators, the credit bureaus will have to keep showing these non-payments as outstanding, although the customers were willing to pay. Those records will start becoming stale after a point.”

In the past, the RBI had relaxed certain rules around classification of borrowers during material events like demonetisation and natural calamities that could affect the credit profile of borrowers. Industry watchers believe such a relaxation is required also in the event of bank collapses, as it mars customers credit scores.

“In the past, the regulator has eased credit classification rules for a lot of microfinance institutions and banks... a moratorium or grace period could also be looked at in these scenarios,” said Sehgal of Equifax.

The Economic Offences Wing of the Mumbai police has registered a case against Mumbai based realtor HDIL's promoters Sarang and Rakesh Wadhawan and some officials of PMC Bank for allegedly causing losses worth Rs 4,355.43 crore to the bank.

The Wadhawans and the bank's suspended managing director Joy Thomas and former chairman Waryam Singh are currently in jail.

Last week, Sitharaman indicated that the government might amend the laws on cooperative banks to prevent malpractices and ensure better regulation. A committee comprising secretaries of the departments of economic affairs and financial services, along with a deputy governor of the RBI, are expected to study the issue of better regulation and coordination among different ministries and states.

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