

RBI flagged irregularities at PMC Bank in 2007: Audit

RASHMI RAJPUT

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Mumbai: The Reserve Bank of India had as early as 2007 flagged irregularities such as 'window dressing' of balance sheets and violation of loan guidelines at Punjab and Maharashtra Cooperative Bank (PMC Bank), but its former board didn't act on those findings, a forensic audit of the fraud-hit bank has purportedly found.

The fraud could have been prevented had the board acted on the central bank's findings, said officials who are aware of the investigations into the bank fraud and the contents of the forensic report prepared by Grant Thornton India. The RBI had levied a Rs 5 lakh penalty on PMC Bank in 2007 after it found

the violations, they said. According to these officials, the report stated that the former board had turned a blind eye on the RBI's findings and did not conduct any discussion over the inspection report.

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Also, the loan committee which comprised board members did not raise questions on the recoverability of the loans and also failed to check the status of the outstanding loans before sanctioning fresh loans to Housing Development & Infrastructure Ltd (HDIL) and its group companies, the forensic report purported to have said. The Mumbai Police and the **Enforcement Directorate** are separately probing the alleged fraud and laundering of money taken as loans from the bank.

“There are two major takeaways here. One, the window dressing (to show a better picture than the actual position) of accounts happened earlier also and the second, had the bank acted in time, they could have prevented the fraud from happening which has left so many account holders in lurch,” said an official. “The investigation has revealed that until 2007 the loan accounts of HDIL were almost regular. However, they started turning irregular post 2008. And, after the 2011-12 Maharashtra government decision regarding resale of TDR (Transfer Development Rights) which was a strong business for the HDIL group, and this coinciding with their major SRA (slum rehabilitation) project near the Mumbai airport getting cancelled, HDIL accounts turned NPAs,” said the official.

On Monday, the Enforcement Directorate probing the laundering aspect of the fraud filed a 7,000-page charge-sheet naming HDIL promoters Rakesh and Sarang Wadhawan as the main accused. They allegedly have laundered more than Rs 2,500 crore by either evergreening loans or purchasing real estate. The Mumbai Police are likely to file its charge sheet in the case within a fortnight.

Investigation has revealed that the promoters, in connivance with the accused bankers, availed of loans as overdraft facilities by HDIL and its affiliates between 2008 and 2013 and allegedly operated masked accounts that were kept out of the bank's core banking system. Subsequently, more than 21,000 companies were floated to make "accommodative entries" so as to escape the scrutiny of investigators, the officials said.

According to the officials in the know, the 2007 RBI inspection note, which the bank board was aware of, stated that it had found instances of window dressing of balance sheets, violation of credit exposure guidelines and extending of unsecured loans in the form of discounting overdraft and personal loans beyond the ceiling limit of Rs 5 lakh.

The report also found violation of cheque purchase facility, violation of a directive on director-related advances and non-adherence to KYC and anti-money-laundering guidelines, said one of the officials who claimed to have seen the report. According to the forensic report, the board and the loan committee continued to sanction loans to HDIL without proper checks and balances, the people said.

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