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Indian banks seek easier loan repayment, NPA classification due to Covid-19

 BY [JOEL REBELLO](#), ET BUREAU | UPDATED: MAR 21, 2020, 12.05 AM IST

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MUMBAI: Indian bankers want the regulator to ease rules on loan recovery timelines to give borrowers the breathing space and monetary health they need to pay back, with large swathes of the economy choked by the lockdown mandated to contain the spread of the [coronavirus](#).

The [Indian Banks' Association](#) (IBA) has made a five-point wish-list for the consideration of the [Reserve Bank of India](#) (RBI), and the request to defer term-loan installments for six months tops that charter of demands.

Also on the list is an extension of the time period for classification of [NPAs](#) on short term loans like cash credits and overdraft and guarantees like letters of credit (LCs) from the present 90 days to 180 days.

This wish list has been sent to the RBI on Friday after the IBA managing committee unanimously approved them at its meeting, CEO Sunil Mehta said.

"These are the five points that we decided should be sent to the RBI for immediate consideration. We have left the decision on what has to be done to the judgement of the RBI. We expect to hear from the central bank next week," Mehta said.

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The IBA recommendation says that banks can decide on the deferment of term loans according to the severity of the impact on the borrower.



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"Suppose a borrower has lost his or her job due to this crisis, then the loan installments could be deferred by six months. But if there is a partial impact like delay in salaries then deferment could be less. The extension for the repayment should be done without downgrading of the asset," Mehta said.

Similarly, missed payments on LCs, cash credit facilities and overdrafts would not be classified as SMA 1 (Special Mention accounts with missed payments for 31 to 60 days) or SMA 2 (missed payments for 61 to 90 days) giving more time to borrowers to make up for delays.

Although the total impact of this unprecedented virus outbreak is yet to be quantified, analysts are penciling in a dent in bank profits in March - and consequently in the first quarter of fiscal 2021 - due to slower new loan generation and delays in recoveries and payments. Sectors like airlines, hospitality and small and medium enterprises are said to be immediate casualties.

"Growth will take a big hit...and impact will be felt from 1QFY21 onward. Tough to give earnings impact here but assuming loan growth is cut by 1000bps (10%) and credit costs increased by say 50bps then 30-40% of earnings or 6-7% of book value is shaved off," said Suresh Ganapathy, analyst at Macquarie Securities. One basis point is 0.01 percentage point.

In its wishlist the IBA has also requested a 1% cut in the cash reserve ratio (CRR), or the amount the deposits banks keep with the RBI without earning any interest, to ensure liquidity.

"We have also asked for a six month extension for cases undergoing resolution under the June 2019 ICA framework, which means the six month deadline will now be extended to 12 months. However, those cases which have no resolution in sight can be take to NCLT," Mehta said.

RBI norms issued in June last year say that banks have to find a resolution to stressed assets under the Inter Creditor Agreement (ICA) framework under a strict six-month timeline.

IBA has also sought RBI forbearance on reporting timelines for crucial bank data of various frequencies because of the disruptions in operations.

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