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# Banking lobby group proposes bad bank with two-tier structure

BY **JOEL REBELLO** & **SALONI SHUKLA**, ET BUREAU | MAY 12, 2020, 06.32 PM IST

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Mumbai: The banking lobby group has proposed a bad bank which would have a two-tier structure where the government would own 100 percent owner of the reconstruction company with an investment of Rs. 10,500 crores, the proposal reviewed by ET shows.

**Banks** may shift up to Rs. 70,000 crores of bad loans at a value net off the regulator determined provisions and would review the stressed accounts post the lifting of moratorium and could decide to shift more assets with additional capital from the government, said the **IBA** proposals.

The plan involves setting up of an asset management company with Rs. 100 crore as capital with participation from all banks and a reconstruction company with a potential to buy as much as Rs 70,000 crores of bad loans, it says. The reconstruction firm will have a tenor of 10 years. These would be called the **National Asset Management Company** (NAMCL) and the **National Asset Reconstruction Company** (NARCL).

"The NARCL will be an SPV constituted to acquire non-performing loans from banks at net book value, the security receipts issued will be held for an interim period and eventually sold to potential investors including alternate investment funds," a 20 page presentation which was submitted to the government stated.

Indian banks which have granted moratorium on payments for three months for most borrowers fear that they would not be in a position to

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carry the burden of defaults once the economy opens after nearly a two month gap. The banking system with nearly a tenth of its assets non-performing believes that it can't cope without government intervention.

"Capital from the government will reduce the pressure on it to provide funds for PSU banks because this will take care of large NPAs," said Sunil Mehta, CEO IBA. "However, for this independent entity to take shape a sovereign backing is important. We have sent a proposal to RBI and the government today and their backing is important to make it work."

The asset management company will be set up through public private partnership and will be responsible for managing these assets. NAMCL will also have a professionally managed board and all decisions will be taken independently without interference from selling lenders.

The concept of a bad bank was first floated in 2018 by the committee headed by former Punjab National Bank chairman Sunil Mehta, which came out with project Sashakt. The scheme had envisaged transferring bad loans above Rs 500 crore to an independent asset management company supported by institutional funding through alternate investment funds.

NARCL will acquire 15 percent of the SRs from the trusts in lieu of Rs 10,500 crore cash as consideration for these loans. NAMCL will be appointed as the asset manager for the transferred assets and will obtain valuation of these assets through independent experts.

The reaction from bankers is however mixed with many questioning whether the govermment will be ready to fund such a large amount and whether it will be understood to be a bail out for banks which will be difficult to manage politically.

"This will again meet the fate of the previous proposals we have seen, floating a bad bank with government equity is a far- fetched idea which has not worked before," said a CEO of a public sector bank. "To be successful these funds have to be managed by professionals with the power to take timely decisions which is not possible when it is controlled by the government."

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