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Market Watch

# Bad bank idea finds little support from RBI, govt

BY MAYUR SHETTY &amp; SIDHARTHA, TNN | UPDATED: JUN 11, 2020, 10.19 AM IST

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Mumbai/ New Delhi: The proposal for a “bad bank” to take over non-performing [loans](#) from commercial banks has found little traction among the regulator, the government and other lenders. Most do not see any advantage in the proposal and feel that there will be issues related to transparency.

[State Bank of India](#) (SBI) and the Indian Banks’ Association (IBA) have revived plans for a “bad bank” amid fears of a bad debt spike due to business disruptions related to Covid-19. The issue was on the agenda for a meeting between the government and regulators last month.

A senior government official said that the move will only mean a transfer from the state-run lenders to a new entity, which can be done even now given the large number of [asset reconstruction companies](#) that are in the market. “Such transactions often lack transparency as the valuations raise questions,” the official said.

Another official said that the transfer will be from [public sector lenders](#) to another public sector entity, and the government will end up providing capital to both the entities. Besides, in a private sector model, where the state-run players have less than majority control, it will turn into “nobody’s child” with a handful of executives calling the shots.

Additionally, according to a senior banker, a [bad bank](#) did not have any special tools to speed up recovery of bad loans. “There are already 20 asset reconstruction companies, competing with each other to buy bad loans. Yet, no sales are taking place because of valuation issues.

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Also, bankers say that it is unclear where the capital is going to come from. RBI rules require that 15% of the value of the sale should be paid in cash. So, if banks sell loans worth Rs 1 lakh crore, the bad bank will have to pay Rs 15,000 crore. One of the big issues that lenders face in making judgment calls is the post facto scrutiny they face. "If the bad bank is in the public sector, the managers will face the same challenges that PSU banks have in deciding on an offer," he said.

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The creation of a separate bad bank entity was first proposed by the Sakshat committee headed by former Punjab National Bank chairman Sunil Mehta two years ago. Following the IBA meeting last month, which took up the bad bank proposal, SBI chairman [Rajnish Kumar](#), who is also IBA chairman, told TOI in an interview that the proposal had some advantages and centralising the decision-making could speed up the process and make it more professional.

According to Central Bank of India MD & CEO Pallav Mohapatra, a bad bank is a workable proposition because it addresses two main issues in resolution of non-performing assets. "Today although there are platforms for lenders to come together. It is very difficult to get all to agree. Second, in 99% of the resolution proposals, time is of the essence. A deal that may be workable today may not be workable tomorrow," he said.

A banker said that since the lockdown, no transaction has taken place in bad loans. One of the reasons is that the physical inspection of the asset has been a challenge. In an interview to TOI, Kotak Mahindra Bank MD & CEO [Uday Kotak](#) had also expressed scepticism about a bad bank. According to Kotak, a big challenge is fair transfer pricing. "I am not saying NO, but it has to have well-defined governance and process mechanisms. The end game is the recovery of money. We have to judge it not by accounting solutions but actual recovery of the nation's assets. So far, outcomes have not been great," said Kotak.

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