

RBI mulls stricter norms for chronic stressed assets

Feels banks often opt for refinancing rather than resolving the problem, specially with lack of agreement between lenders

Concerned over banks' reluctance to resolve accounts that are showing signs of stress, and instead resorting to 'ever greening', the Reserve Bank of India (RBI) is mulling stringent norms for loans that are frequently falling in the category 2 of special mention accounts (SMA 2). Loans are classified as SMA 2 when it becomes overdue for more than 60 days.

The regulator had asked banks to form a joint lenders forum (JLF) for accounts facing stress and emphasised on their resolution. However, in a majority of such cases, the consortium members are unable to agree on corrective action. To implement one, 60 per cent of the lenders in numbers and 75 per cent in value should agree.

As a result, some large lenders are resorting to refinancing for the borrower, which enables the latter to meet immediate payment obligations; the problem is deferred. In bankers' parlance, the practice is known as evergreening of loans.

According to sources, the central bank could introduce higher provisioning, among other measures, for accounts which frequently slip to SMA- 2.

The debt recast proposal of a large steel company is an example. Repayment was due for more than 60 days, which triggered formation of a JLF. A little more than two dozen lenders have a combined Rs.50,000/- crore exposure, including off- balance sheet. Since most lenders were not keen to recast the loan by the 5/ 25 principle, the banks decided to refinance the loan, to avoid it being classified as a nonperforming asset (NPA). The 5/ 25 principle allows banks to refinance a loan four times every five years, for 25 years. The move is aimed at spreading the risks for long-gestation projects and to address asset-liability mismatch issues.

RBI governor Raghuram Rajan recently cautioned banks that they should not misuse the 5/ 25 rule by resorting to evergreening. "We have allowed the possibility that when the structure that was put on the project was probably not appropriate in the past, they could restructure with 5/ 25, especially with long-dated projects. We are tracking that process to make sure it obeys the objectives of that and not become a backdoor way of evergreening but is a front door way of giving projects time to repay when they are in fact longer projects. That is something we are looking at," he said last week while addressing the media after RBI's board meeting in Chennai.

Amid a rise in stressed assets in the system, RBI had issued norms last year to address the issue. Banks were advised to detect stress at an early stage and take initiatives to resolve the issues. However, as explained earlier, banks in most cases were unable to agree on a resolution mechanism.

"We have received representations from bigger lenders about non-cooperation from a few lenders. On the other hand, smaller lenders have voiced their concerns about being arm-twisted

by bigger lenders. Unless there is proper coordination between the interested parties, all the revival efforts are likely to fall flat,” RBI deputy governor S S Mundra said last month.

Overall stress in the banking sector, that is, gross NPAs and restructured advances, increased from 9.2 per cent in March 2013 to 11.1 per cent of the total in two years, according to RBI data. Gross NPAs grew to 4.6 per cent of gross advances as on March 2015, as compared to 3.4 per cent at end March 2013.

(Business Standard)