

## Banks agree to resolve stressed assets quickly

Leading lenders of the country on Monday signed an agreement among themselves to grant power to the lead lender of the consortium to draw up a resolution plan for stressed assets. The plan would be implemented in a time-bound manner before bankruptcy proceedings kick in, as was the mandate of the Reserve Bank.

The move comes after the banking regulator, in its February 12 circular, dismantled all the existing resolution mechanisms, such as the joint lenders' forum, and asked lenders to start resolution for the asset even if the default was by one day. It had also mandated that if the resolution plan was not finalised within 180 days, the account had to be referred for bankruptcy proceedings.

### **SBI, BoI on board**

The agreement, known as Inter-Creditor Agreement (ICA) was framed under the aegis of the Indian Banks' Association and follows the recommendations of the Sunil Mehta Committee on stressed asset resolution. Lenders including State Bank of India, Bank of India, and Corporation Bank have already signed the pact.

"The ICA has been executed by 24 lenders, primarily those who have obtained their board approvals," IBA chief executive V.G. Kannan said. "Other lenders are expected to execute the ICA shortly after getting approval from the respective Boards," he added. Non-banking financial companies are also expected to sign the agreement.

In a tweet, Finance Minister Piyush Goyal said, "A massive step taken to resolve NPAs. 24 public, private and foreign banks have signed inter-creditor agreements under Sashakt to resolve stressed assets. This resolution over dissolution approach will strengthen banks & businesses, protect jobs & help economy grow even faster."

The ICA is applicable to all corporate borrowers who have availed loans for an amount of Rs. 50 crore or more under consortium lending / multiple banking arrangements, IBA said in a statement. The lender with the highest exposure to a stressed borrower will be authorised to formulate the resolution plan which will be presented to all lenders for their approval.

"The decision making shall be by way of approval of 'majority lenders' (i.e. the lenders with 66% share in the aggregate exposure). Once a resolution plan is approved by the majority..., it shall be binding on all the lenders that are a party to the ICA," the statement said.

Dissenting lenders can either sell their exposure to another lender at a 15% discount or buy the entire exposure of all the banks involved, at a 25% premium.

### **'To aid resuscitation'**

"One of the major issues that we identified was a [lack of] consensus among the lending banks on what should have been a common resolution plan which would have benefited the banks, so that there is a resolution in getting the asset back into the resuscitation mode rather than allowing it to impair over a period of time," said Sunil Mehta, chairman, Punjab National Bank, and the head of the panel that had recommended the ICA.

"This is primarily focussed on the Rs. 50 crore-Rs. 500 crore and the Rs. 500 crore-Rs. 2,000 crore categories. If there are any specific assets of more than Rs. 2,000 crore, we will deal with that separately," Mr. Mehta said.

Sign up to receive our newsletter in your inbox every day!

Please enter a valid email address.

Our existing notification subscribers need to choose this option to keep getting the alerts.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

crackIAS.com