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CVC FINDS MANY FLAWS IN SALE OF BAD DEBT BY BANKS

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NEW DELHI: In high season for sale of bad loans to asset reconstruction companies (ARCs), the Central Vigilance Commission (CVC) has pointed to several irregularities in transactions involving non-performing loan accounts, prompting the government to initiate action against errant executives.

“Instances have come to the notice of the commission, wherein prudence has not been observed, while taking decision on sale of stressed asset to ARCs. Irregularities have been noticed in estimating the value of underlying securities (which) is much higher that the value at which the assets were sold to ARCs, post-sale realisation from assets, management fees and expenses charged by ARCs, etc,” the CVC said after an analysis of 302 cases of over Rs 50 crore from 2014-15 to 2017-18.

In at least 48 cases, assets were sold to ARCs below the realisable value of securities that the borrower had given as security at the time of availing of the loan. In several cases, banks were found to be fixing the reserve price without factoring in the accrued interest, resulting in banks having to take a deeper haircut, the CVC said in its report to the government. It also said that in case of companies that are sold as a “going concern”, the primary value of stocks and equipment were not factored in, while fixing the reserve price.

Similarly, in 55 cases, assets were sold within a year of the date of the account turning into a non-performing asset (NPA), without banks initiating recovery action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act.

In all, 22 irregularities and gaps in regulations have been pointed out by the vigilance body, prompting the government to swing into action.

The department of financial services has written to all state run banks, asking them to analyse all accounts of over Rs 50 crore and initiate action after examining accountability of executives and lodge complaints with law enforcement agencies.

While bankers acknowledged that there may be instances of improper transactions, they said the latest advisory is prompting many lenders to go slow on asset sales — which typically peak at the year-end. Some of the bankers said this may result in several loans, which would have been sold, remaining on their balance sheets.

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