SYNDICATE BANK EMPLOYEES'UNION (REGD)

(AFFILIATED TO AIBEA)

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16th, 17th, 18th NOVEMBER 2013

AIBEA Central Committee calls for observing

5th Dec. 2013

as ALL INDIA DAY

AGAINST

GROWING BAD LOANS IN BANKS

- ✓ **Publish the list of Bank Loan Defaulters of Rs. 1 crore and above**
- ✓ **Make Willful default of bank loan a criminal offence**
- ✓ **Order investigation to probe nexus and collusion**
- ✓ **Amend Recovery Laws to speed up recovery of bad loans**
- ✓ **Take stringent measures to recover bad loans**
- ✓ **Do not incentivise corporate delinquency**

RBI Governor Raghuram Rajan warns bankers on ever-greening of bad loans

"**can put lipstick on a pig but it doesn't become a princess**".

PTI Nov 15, 2013, 10.ECONOMIC TIMES, MUMBAI:

Reserve Bank Governor Raghuram Rajan

Reserve Bank Governor Raghuram Rajan today warned banks against dressing up bad loans and creating bigger problems for future, by drawing a symoblic comparison that one "**can put lipstick on a pig but it doesn't become a princess**".

"Restructuring is a legitimate attempt to deal with changes that have happened, but ever-greening is trying to ignore the problem and taper over for later period and thus create large problems in future. Clearly, an important distinction we need to draw," the RBI chief told bankers here this evening at a banking summit.

"You can put lipstick on a pig but it doesn't become a princess. So dressing up a loan and showing it as restructured and not provisioning for it when it stops paying, is an issue. Anything which postpones a problem than recognising it is to be avoided," Rajan said.

Ever-greening is when you are trying to hide the problem and restructuring is when you are trying to deal with a problem where the original zone doesn't quite correspond to the altered circumstances, he said.

Stating that banks should focus more on getting assets back on track and stop meddling with accounts, he said, "One has to be very clear that we shouldn't meddle too much with accounting but focus on getting the troubled asset back on track."

Rising NPAs or bad loans have been a concern to both RBI and governmenty. As of June, the gross NPA of nationalised banks was 3.89 per cent and State Bank Group at 5.50 per cent of total advances.

Finance Minister P Chidambaram, last month, had said the government will monitor 30 NPA accounts of each PSU bank to recover dues. He had also said that the **bulk of the NPA was from those who borrowed Rs 1 crore and more.**

Rs 1 lakh crore bad loans of corporates written off: RBI

Banks have sacrificed over Rs 1 lakh crore by writing off bad loans to corporates, data collected by RBI reveals.

TIMES OF INDIA, Mayur Shetty, TNN | Nov 17, 2013, MUMBAI:

Data collected by Reserve Bank of India over a period of one year blows the lid off what goes as loan classification in banks. In a presentation at the annual bankers' conference, RBI deputy governor K C Chakrabarty showed how **banks have sacrificed over Rs 1 lakh crore by writing off bad loans to corporates,** which is much higher than Union finance minister P Chidambaram's farm loan waiver in 2008—a move that received flak from the industry.

Under the Debt Waiver and Debt Relief Scheme, 2008, the Centre had waived off around Rs 60,000 crore to farmers.

"**In the last 13 years, banks have written off 1 lakh crore and 95% of these are large loans.** Everyone talks of the farm loan write-off, but it is the medium and large enterprises segment that has a 50% share in NPAs," said Chakrabarty.

The deputy governor flayed banks for using 'technical write-offs' to reduce their non-performing assets (bad loans) over the years. Technical write-off is a process adopted by banks whereby they take a hit on their profits and stop including the defaulting loan in the list of those from whom repayments are due. It is called a technical write-off because although banks do not show these loans as receivables in their books, they continue to pursue recovery in courts or other forum.

A technical write-off enables banks to claim that they do not have any bad loans on their books by fully providing for the loans from their earnings. It also reduces their tax outgo.

Chakrabarty also raised the issue of **restructured loans—advances where potential defaulters** are given more time to repay without being called defaulters. "Restructuring of loans with retrospective effect has killed credit quality in banks," he said. He warned banks that the leeway might not be available in future.

"We must move away from restructuring, there should not be any category called restructuring. The moment it is restructured, it should be declared as NPA, there should not be any technical write-off... be prepared for that, unless you do that you might not be able to get out of the mess," he said.

RBI numbers showed that the **banks added Rs 4,94,836 crore to their bad loans between 2007 and 2013.** During the same period, they reduced NPAs to the extent of Rs 3,50,332 crore. This was possible because **loans worth Rs 1,41,295 crore were written off** and another Rs 90,887 crore were upgraded to repaying loans and Rs 1,18,149 crore was recovered from defaulters. According to Chakrabarty, after a technical write-off, there is no incentive to pursue recovery.

The deputy governor said that in the case of large loans, there is no one who is accountable for monitoring the loan, as these are sanctioned by the board or a committee. "**Between 2007-13, credit to 10 large corporate groups has more than doubled.** We have seen that wherever credit growth has been higher, NPAs are also higher."

Chakrabarty blames public sector banks for sitting on bad loans

OUR BUREAU BUSINESSLINE

K.C. Chakrabarty

Forget banks of future, 'I am concerned about future of banks'

MUMBAI, NOV. 16:

RBI Deputy Governor K.C. Chakrabarty on Saturday lambasted public sector banks for the rising bad loans, saying they sat on the "menace" far longer than their private sector counterparts.

In a well-researched presentation at Bancon 2013, an annual banking conference, the Deputy Governor also rubbished claims by banks that non-performing assets (NPAs), or bad loans, have been rising because of the economic slowdown.

On the theme of the Bancon 2013 — 'Banks of the future: Gearing up to meet the emerging environment' — Chakrabarty said: "As a regulator, I do not have the luxury to talk about the banks of the future; I am more concerned about the future of the banks. **One factor affecting the future of the banks is non-performing assets."**

He provided data to establish that NPAs had started rising from 2007, before the financial crisis. He said fresh slippages showed a declining trend from early 2000s, but started rising since 2006-07.

It is not as if the economic slowdown has affected "public sector banks alone". Private sector banks and even foreign banks have been able to deal with the NPA menace better, Chakrabarty added. The key, according to him, was that these banks identified the problem earlier.

The central banker underscored the importance of regulation in dealing with the NPA problem. "Banks ask for softer regulations (for provisions) when NPAs increase, while data show that **when regulations are tightened, asset quality improves**."

Prudential norms (like higher provisioning) are in the interest of the banks, he said, urging lenders to put in place a contingency plan when they lend to infrastructure-based projects such as coal mining and gas-based plants.

When pointed out that public sector banks face excess stress because they have to lend to public enterprises, Chakrabarty said: "For government companies, the project appraisal has to be more stringent. The more powerful the borrower… your appraisal has to be more stringent."

Responding to the comments, K. R. Kamath, Chairman and Managing Director of state-run Punjab National Bank, said: "We have to learn from the past and utilise the opportunities that are available to us." Kamath, who is also the Chairman of the Indian Banks' Association, termed the deputy governor's speech as "introspective."

On the point about banks pulling the plug on wilful defaulters, M. Narendra, CMD, Indian Overseas Bank, said banks are slowly moving in that direction.

Be stringent in loan appraisals, Chakrabarty tells bankers

SPECIAL CORRESPONDENT , THE HINDU

Lambasting banks for surging non-performing assets (NPAs), Reserve Bank of India Deputy Governor K. C. Chakrabarty, on Saturday, said credit risk management was lagging behind among public sector banks.

"I am more concerned of the future of banks than the banks of the future," said Dr. Chakrabarty while speaking on 'Two decades of credit management in banks: looking back and moving ahead', at the annual banking conference (BANCON) here.

Narrating the steps taken by the central bank over the years to address the issue of NPAs, Dr. Chakrabarty said that "whenever we tightened regulations and prudential norms, the asset quality of banks has improved…relaxation is a wrong approach…prudential norms are not to kill banks but to secure their future."

The sad part, according to Dr. Chakrabarty, was that these banks on their own never tried to analyse the reasons for the surging NPAs. "**Many of them preferred to write-off NPAs, especially large borrowers. But when it comes to small borrowers, they were stringent."**

He dismantled the argument that slow growth in the economy had resulted in mounting NPAs. "Bad assets of banks started going up much before the GDP has come down…**the culprit is industry**… more powerful is the borrower, banks' appraisal should be stringent and appraisal should be ownership-neutral."

The Deputy Governor asked bankers to **stop accusing farmers and retail borrowers for the NPA mess,** and asked them to change their approach to small borrowers. "**Be stringent with big borrowers but be sympathetic with small borrowers."**

Dr. Chakrabarty also advised banks to sanction loans at the bank manager's level, instead of by the head office. He said that write-off should be done ethically for valid reasons. "To write-off a bad loan, no management is required…and those banks which are able to identify the NPAs quicker, will be able to manage it better."

Loan recast has gone out of control: RBI official

Asset restructuring touches Rs 3.25 lakh crore as of June

MUMBAI, NOV. 16: BUSINESSLINE

Overall asset restructuring in the banking system, which touched Rs 3.25 lakh crore as of June, has gone "out of control", according to RBI Executive Director B. Mahapatra.

"Till March 2010-11, things were manageable at around Rs 1.10 lakh crore, but now if you see, things are quite out of control. It has gone up to Rs 2.70 lakh crore.

"This is only CDR (corporate debt restructuring), and if you put both (CDR and bilateral restructuring cases between banks and companies) together, it might exceed Rs 3.25 lakh crore," Mahapatra said, who was chairing a panel discussion at the annual banking conference Bancon 2013 on Saturday.

A bank agrees to restructuring when a loan is under stress, and a default is feared. Under restructuring, banks typically increase the repayment period of loans to stressed borrowers, offer a moratorium and reduce lending rates.

All stakeholders need to tackle the problem jointly, said Mahapatra. "We'll tolerate a bit of restructuring. We will give the regulatory forbearance, offer more time."

Hinting that the initiative may come with a rider, the central banker said: "Incentivising is if you go for an early recognition of NPAs (non-performing assets) and early resolution of the problem."

At present, a loan is considered to be an NPA if its instalment is not paid for three months or 90 days.

"Before 90 days, you know the trend. We are still working on it, nothing is finalised," Mahapatra added.

On Friday, RBI Governor Raghuram Rajan had said the central bank would announce steps to incentivise early recognition, better resolution and fair recovery of distressed loans. Mahapatra also expressed concern over the **falling provision coverage ratio** of the banking system, saying it has, on an average, slipped in three years to 45 per cent from over 55 per cent.

Provision coverage ratio is essentially the ratio of provisioning to gross NPA and indicates the extent of funds a bank has kept aside to cover loan losses.

"There's no level per se… Around 50-60 (per cent) is ok (excluding provisions towards standard assets). It depends on the collateral… if the collateral is high quality, you don't need high provisions," Mahapatra said. Deputy Governor K. C. Chakrabarty said that globally, the provision coverage ratio is 70-80 per cent.

Bottomline at the top

OUR BUREAU BUSINESSLINE

In time-honoured tradition, a change of guard at the top of a business enterprise means heads roll, transfers are made and skeletons fall out of the cupboard. In the case of public sector banks, a change at the top usually means a massive drop in earnings the following quarter. Invariably extra 'provisions' have to be made for growth in non-performing assets the departing chairman probably did not want to disclose. The incoming head wants to start on a clean slate, of course, and so the lower the profits the better! More recently, both the the RBI and the Finance Ministry have expressed concern about these swings because it makes for a lot of volatility — although markets are likely to have factored this beforehand. The latest instance of a change of CMD bringing about a massive rise in provisioning is the Central Bank of India, leading to a Rs 1,500 crore loss in the second quarter.

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