



Module-C Unit-8

CAIIB PAPER-1

Advanced Bank Management (ABM)



CAIIB Paper (ABM) Module C Unit 8: Rehabilitation/ Rehabilitation and Recovery

Credit Default/Stressed Assets/NPAs

Credit default means the inability or the unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, or any financial transactions. ***This may take the following forms;***

- **In the case of direct lending:** principal and/or interest amount may not be repaid as per the terms of repayment.
- **In the case of guarantees or letters of credit:** funds may not be forthcoming from the constituents upon crystallization of the liability;
- **In the case of treasury operations:** the payment or series of payments due from the counter parties under the respective contracts may not be forthcoming or ceases;
- **In the case of securities trading businesses:** funds/securities settlement may not be effected;
- **In the case of cross-border exposure:** the availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the sovereign.

Non Performing Assets (NPAs)

As per RBI directives, banks in India have to classify their assets into Performing or Standard assets or Non performing assets (NPAs). NPAs are further classified into (a) **Sub-standard**, (b) **doubtful** and (c) **loss assets**.

The classification is based on the period of default as also the availability of security. The amount of provision required to be made on the asset portfolio of a bank depends on its classification into the four categories of standard, sub standard, doubtful and loss.

Willful Defaulters

The default in payment as per agreed terms could be intentional or due to the reasons beyond the control of the borrower. **The intentional default is referred to as willful default. As per RBI guidelines**, a 'willful default' would be deemed to have occurred if any of the following events is noted:

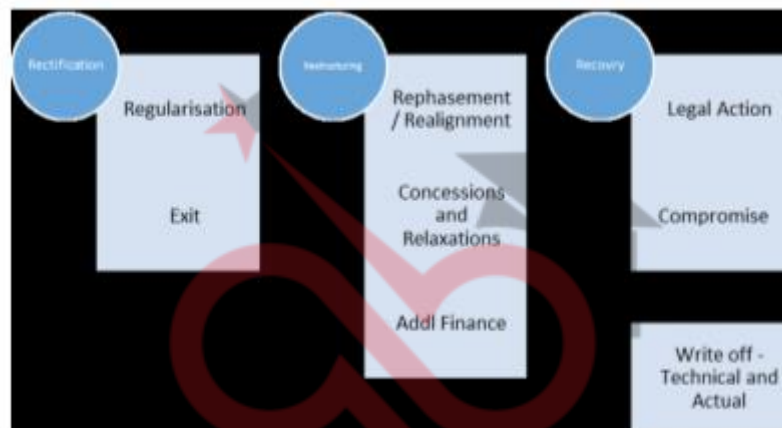
- The **unit has defaulted in meeting** its payment or repayment obligations to the lender even when it has the capacity to honour the said obligations.
- The unit has defaulted in meeting its **payment or repayment obligations to the lender and has not utilized the finance**, borrowed for the specific purposes for which the finance was availed of but has diverted the funds for other purposes.
- **The unit has defaulted in meeting its payment or repayment obligations to the lender and has siphoned off the funds so that the funds have not been** utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

- The unit has defaulted in meeting its payment or repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank or lender.

Options Available To Banks for Stressed Assets

Every credit default does not necessarily result in loss to the bank. In many cases, bank may be able to **recover its dues fully**. In other cases, the recovery may be with some loss or, in the worst scenario there may be no recovery at all.

The timely action and an appropriate strategy play very important role in achieving the best recovery for any stressed asset. While formulating the strategy, the bank has to keep in mind the legal system as also the social aspects prevailing in the country. Normally, a bank follows the **following steps in case of a stressed asset**:



- Exit from the account
- Rescheduling or Restructuring
- Rehabilitation
- Compromise
- Legal action
- Write off

Legal Action: In cases where even the compromise does not materialize, banks have to initiate recovery proceedings. The forums available to the banks are as under;

- Government Machinery
- Civil Courts
- Lok Adalats
- Debt Recovery Tribunals (DRTs)
- SARFAESI Act, 2002

Corporate Debt Restructuring (CDR)

Mechanism

The **CDR Mechanism has been designed to facilitate restructuring of advances of borrowers enjoying credit facilities from more than one bank/Financial Institution (FI)** in a coordinated manner. The CDR Mechanism is an organizational framework institutionalized for speedy disposal of restructuring proposals of large borrowers availing finance from more than one bank/FI. This mechanism will be available to all borrowers engaged in any type of activity **subject to the following conditions:**

i)The borrowers enjoy credit facilities from more than one bank or FI under multiple banking or syndication or consortium system of lending.

ii)The total outstanding (fund-based and non-fund based) exposure is **Rupees 10 crores or above. C D R system in the country will have a three tier structure**

- **CDR Standing Forum:** The C D R Standing Forum would be the representative general body of all financial institutions and banks participating in C D R system. All financial institutions and banks should participate in the system in their own interest. C D R Standing Forum will be a self-empowered body, which will lay down policies and guidelines, and monitor the progress of corporate debt restructuring.
- **CDR Empowered Group:** The individual cases of corporate debt restructuring shall be decided by the CDR Empowered Group, consisting of E D level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd. and State Bank of India as standing members, in addition to E D level representatives of financial institutions and banks who have an exposure to the concerned company.
- **CDR Cell:** The CDR Standing Forum and the CDR Empowered Group will be assisted by a CDR Cell in all their functions. The CDR Cell will make the initial scrutiny of the proposals received from borrowers/creditors, by calling for proposed rehabilitation plan and other information and put up the matter before the CDR Empowered Group, within one month to decide whether rehabilitation is prima facie feasible.

Available Frameworks For Restructuring Of Assets

Framework for Restructuring/Revival and Rehabilitation of MSMEs RBI has, vide circular dated 17-03-2016, designed a framework in order to provide a simpler and faster mechanism to address the stress in MSME accounts and to facilitate promotion and development of MSMEs. This framework has been adopted and brought into effect by the Bank. The main features of the framework are as below:

- Framework shall be applicable to all stressed MSME accounts having exposure up to Rs. 25 crores, including accounts under Consortium or Multiple Banking Arrangement (MBA).
- For resolution, a committee headed by regional or zonal head of the convener bank, will be formed. The other members of the committee are:
 - ✓ Officer-in-charge of MSME of the convener bank at the regional or zonal office level

- ✓ An independent expert in MSME,
- ✓ A representative from the concerned State Government and
- ✓ Member(s) from the Consortium/MBA, in case of consortium/MBA advances.
In the absence of State Government nomination, bank can induct an independent expert in the Committee, namely a retired executive of another bank of the rank of AGM and above.
- While decisions of the committee will be by simple majority of members, the Chairperson shall have the casting vote, in case of a tie.
- Based on the extant guidelines on Early Warning Signals/SMAs, the branch or Credit Processing Cell (CPC) maintaining the account shall forward the stressed accounts with **aggregate loan limits above Rs. 10 lakh** to the designated committee for a suitable Resolution Plan (RP) within 5 working days.
- Recovery option under RP by Branch/CPC is to be approved by the designated Committee.
- The cases under Consortium/MBA are to be referred to the Committee of the bank which is having the largest exposure to the borrower.
- The Committee shall decide on appropriate Resolution Plan (RP). In case of restructuring, TEV study is to be got conducted mandatorily by the Committee for accounts with aggregate exposure of certain level and above as per bank's policy.
- The committee shall make suitable provisions for payment of tax or any other statutory dues in the RP and the enterprise shall take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval for such payment plan.
- During operation period of RP, the unit shall be allowed to avail both secured and unsecured credit for its business operations as envisaged under the terms of RP.
- The options under RP by the Committee may include:
 - ✓ Rectification
 - ✓ Restructuring and
 - ✓ Recovery
- In cases of consortium/multiple banking arrangement would be considered as the basis for proceeding with restructuring of the account by the designated committee, and will be binding on all lenders.
- In case of recovery option, the minimum criteria for binding decision, if any, under any relevant laws or Acts shall be applicable.
- Provision of additional financial resources to restructure or revive, can be worked out.
- If the promoters are not in a position to bring in additional funds, the Committee may allow the unit to raise secured or unsecured loans.
- In case of failure of 'Rectification' or 'Restructuring' options, Committee shall initiate recovery option.
- Wilful defaulters shall not be eligible for restructuring. However, the Committee may review the reasons for classification of the borrower as a wilful defaulter and satisfy itself that the borrower is in a position to rectify the wilful default.

The decision to restructure such cases shall have the approval of appropriate specific authority as per bank's scheme of delegation of powers.

- Cases of fraud and malfeasance are not eligible for structuring. However, in such cases where the existing promoters are replaced by new promoters, the proposal shall be put up to appropriate authority.
- In case the Committee decides for recovery action, the enterprise can seek a review of the decision and it will be examined and decided by the Committee.
- Where an application is filed by a bank and admitted by the Committee, the Committee will notify the concerned borrower about such application within 5 working days. **Within 15 working days** of receipt of such notice, borrower is required to respond or make a representation before the Committee. Borrower is also required to disclose the details of all its liabilities, including the liabilities owed to the State or Central Government and unsecured creditors, if any. If the borrower does not respond within the above period, the Committee may proceed ex-parte (with respect to or in the interests of one side only).
- On receipt of information relating to the liabilities of the borrower, the Committee may send notice to such statutory creditors as disclosed by the borrower as it may deem fit, informing them about the application under the framework and permit them to make a representation regarding their claims before the Committee **within 15 working days** of receipt of such notice. It is clarified here that these information are required for determining the total liability of the unit in order to arrive at a suitable RP and not for payments of the same by the lender.
- **Within 30 days of convening its** first meeting for a specific borrower, the Committee will take a decision on the option to be adopted under the RP and notify the borrower about such a decision within 5 working days from the date of such decision.
- If the RP decided by the Committee envisages restructuring of the debt of the enterprise, the Committee will arrange for Techno-Economic Viability (TEV) study and finalise the terms of the restructuring in accordance with the extant prudential norms. Timelines for completion the same has to be as per individual bank's instructions from time to time.
- Upon finalisation of the terms of the RP, implementation of that plan has to be completed by the **bank within 30 days from the date of decision** (if the RP is Rectification) and **within 90 days from the date of decision** (if the RP is restructuring). In case recovery is considered as RP, the recovery measures should be initiated at the earliest but **not later than 30 days from the date of decision**.

Sale Of Financial Assets

(RBI Circular titled Framework for Revitalising Distressed Assets in the Economy – Refinancing of Project Loans, Sale of NPAs and Other Regulatory Measures dated 26-02-2014) A financial asset may be sold to the Securitisation company (SC)/Reconstruction company (RC) by any bank/FI where the asset is:

- A NPA, including a non-performing bond/debenture, and
- A Standard Asset where:
 - ✓ The asset is under consortium/multiple banking arrangements,
 - ✓ At least 75% by value of the asset is classified as non-performing asset in the books of other banks/FIs, and
 - ✓ At least 75% (by value) of the banks/FIs who are under the consortium/multiple banking arrangements agree to the sale of the asset to SC/RC.
- Where the financial asset is reported as SMA-2 by the bank/FI to Central Repository for Information on Large Credit (CRILC). However, if restructuring has been decided as the Resolution Plan, then banks will not be permitted to sell such assets to SCs/RCs, without arranging their share of additional finance to be provided by a new or existing creditor.

- [Join CAIIB Telegram Group](#)
- For Mock test and Video Course Visit: test.ambitiousbaba.com
- Join Free Classes: [JAIIBCAIIB BABA](#)
- [Download APP For Study Material: Click Here](#)
- [Download More PDF](#)

[Click here to get Free Study Materials Just by Fill this form](#)



**CAIIB
NEW
SYLLABUS**

- ✓ Video Course
- ✓ Mock Tests
- ✓ Capsule PDFs
- ✓ New Syllabus

JOIN NOW

 Visit us for more information

The banner features a blue and white color scheme. On the right side, there is a circular inset image of a smiling woman with glasses, wearing a denim jacket, holding several books. The 'ambitiousbaba.com' logo is visible in the top right corner of the banner.