AIBEA's Banking News

3,4,5,6 , DECEMBER 2018

NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

Unions Threaten Nationwide Strike on December 26 to Protest Merger of Banks

All unions under UFBU will participate in this strike call to protest the proposed merger of Bank of Baroda, Dena Bank and Vijaya Bank.

PTI December 1, 2018,

New Delhi: Bank unions Saturday called for a nationwide strike on December 26 to protest the proposed merger of Bank of Baroda, Dena Bank and Vijaya Bank.

The government had in September approved the merger of the three public sector lenders. The strike will be organised by the United Forum of Bank Unions (UFBU), an umbrella body of nine employee and officer unions.

The government and the concerned banks were moving ahead with their decision for amalgamation and hence it was decided to give the call for

strike, **All India Bank Employees Association** General Secretary C H Venkatachalam said.

Following the government nod, the respective boards of these banks gave their approval for the amalgamation.

The merged entity will be third largest lender of the country after State Bank of India (SBI) and HDFC Bank. As at June-end, the total business size of the three entities together was Rs 14.82 lakh crore.

Of the three banks, Dena Bank is the weakest, with non-performing asset (NPA) ratio of 11.04 per cent and business of Rs 1.72 lakh crore, as compared to 5.4 per cent NPA and Rs 10.2 lakh crore business of Bank of Baroda and 4.10 per cent NPA and Rs 2 lakh crore worth business of Vijaya Bank.

Monetary policy does pack a punch

SLR cuts will release significant amount of funds for lending

Though the policy rate and stance haven't changed, it contains significant developmental and regulatory policy measures

HIMADRI BHATTACHARYA BusinessLine

The fifth bi-monthly meeting of the MPC of the RBI in the current fiscal was billed to be a non-event since just about everyone was certain that the policy repo rate would be kept unchanged at 6.50 per cent. It turned out to be not exactly a non-event although the MPC kept both the policy rate as also the stance unchanged.

Quite a few significant developmental and regulatory policy measures were announced by the RBI alongside the monetary policy, one of which was the decision to align the SLR (statutory liquidity ratio) with the LCR (liquidity coverage ratio) requirement of banks, which is currently at 18 per cent of the net demand and time liabilities (NDTL).

Beginning the first quarter of 2019, SLR will be cut by 25 basis points every calendar quarter until the SLR, which is now at 19.5 per cent of NDTL reaches 18 per cent. This measure will free up a significant amount

of funds for lending purposes, and will strengthen the present rising trend in credit expansion by banks.

The price of the benchmark 10-year G-Sec moved up after the policy announcement.

Macroeconomic data released in the weeks following the last policy meeting in October, in which the MPC kept the policy rate unchanged, but changed the stance from 'neutral' to 'tightening', portrayed a somewhat downbeat picture for the growth and inflation prospects of the Indian economy.

The growth rate for the second quarter of 2018-19 fell sharply to 7.1 per cent from 8.2 per cent recorded in the first quarter, while the CPI inflation reading for October at 3.3 per cent was lower than the 3.9-4.5 per cent range projected by the RBI for the second half of 2018-19.

The market expected that the RBI would lower both the growth and inflation projections for the remainder of the current fiscal year.

As the statement released by the MPC indicates, going forward the growth prospects present a mixed picture.

While both the kharif and rabi productions are likely to be low due to below-normal monsoon, the recent uptick in industrial activity in the third quarter, and the strong business conditions in the services sector which expanded in November at the quickest pace in four months indicate that the underlying growth momentum of the economy is not faltering and still strong.

As per RBI's Industrial Outlook Survey (IOS), the overall business sentiment in the third quarter remained stable, with sustained optimism about production and exports.

CPI inflation

The facts behind the fall in CPI inflation in October are interesting, to say the least. While the core CPI inflation (CPI excluding food and fuel prices) rose, a deflation in food prices more than offset the increase in core inflation. Deflation in vegetables, pulses and sugar deepened in October.

Inflation expectations of households in November fell by 40 basis points for the three-month ahead horizon, while they remained unchanged for the twelve-month ahead horizon.

Producers' assessment for input prices inflation eased marginally in the third quarter, while agricultural as well as industrial input costs remained high. Rural wage growth remained muted in the second quarter but staff cost growth in the manufacturing sector remained high.

The MPC has kept unchanged the growth rate projection for 2018-19 at 7.4 per cent (7.2-7.3 per cent in the second half of the fiscal) and 7.5 per cent for the first half of 2019-20, with risks somewhat to the downside. Its projection for CPI inflation has been lowered to 2.7-3.2 per cent in H2:2018-19 and 3.8-4.2 per cent in H1:2019-20, with upside risks.

These risks seem to be real, because any reversal in the sharp fall in food prices as well as in the oil prices can derail this projection. The MPC's decision to keep the stance unchanged reflects this possibility. However, going forward, for the sake of providing more clarity and context in respect of the MPC's decisions, assessment and projections need to be made separately for core CPI as well.

Pricing of loans

Apart from the measure to reduce the SLR to be in alignment with the LCR, another regulatory measure announced today will have far-reaching consequences. This relates to the requirement that banks will henceforth be required to price their new floating rate personal loans, retail loans and floating rate loans to micro and small enterprises on the basis of any of the several prescribed external benchmarks.

This means a paradigm shift in the way loans are priced, on the one hand, and asset-liability risks are managed, on the other, by banks. They will no longer be able to price their floating rate loans (of the three types, to start with) on cost-plus basis, which will make intermediation more efficient and transmission of monetary policy more effective. However, the impact of this measure will reach its logical conclusion only if banks

are able to price their liabilities also on the basis of external benchmarks. This will be a challenge.

With the adoption of the new approach for pricing, banks' balance sheets will be exposed to the interest risk associated with the external benchmarks they chose for this purpose.

It will be easier, and perhaps cost-effective, to manage these risks if both OTC and exchange-traded interest rate derivatives with the external benchmarks as the underlying are introduced and made popular in India. The RBI will be required to make progress in this direction soon.

MPC on track

Financial markets in India and elsewhere can be and are volatile at times. So, can be the views and opinions of market-watchers and analysts. According to a recent poll conducted by a premier news agency covering 70 economists, 60 per cent of the 51 respondents who were also polled last October changed their forecasts from a 'hike' to a 'no hike' by MPC in the fifth bi-monthly meeting.

This is encouraging provided the monetary policy setting by the MPC is increasingly seen as data-dependent.

In that event, the odds are high that the markets will do the same. This issue is important because a section of the market analysts thinks that a 'dovish' stance now on the monetary policy would also be desirable in the light of the reported rift between the government and the RBI on a few issues, including the expansion of lending by the 11 public sector banks which are currently under the PCA (prompt corrective action) of the RBI.

One hopes that the MPC will continue to demonstrate through its deliberations and actions that nothing but following its mandate matters. Its performance has been confidence-inspiring in this regard.

Loan waivers do not address farming crisis

Tenant farmers, a significant category of agriculturists, are left out by banks. This poses a policy challenge

B YERRAM RAJU

THE HINDU BusinessLine

With the announced Assembly elections to the five States and the impending general elections, political parties are in competitive populism mode to announce farm loan waivers as a bait. However, the micro-reality suggests that crop loans, and hence waivers, are generally not provided to tenant farmers. The rise of tenant farming among small and marginal farmers also coincides with growing fragmentation of land.

The Reserve Bank data for March 2016 on farm credit (Basic Statistical Returns) show that 77 million agriculture credit accounts with SCBs (scheduled commercial bank) carry an average loan ticket of Rs.1.16 lakh. Around 70 per cent of them are crop loans.

The contagion of waiver started with the first loan waiver in 1990 and again in 2008 from Government of India. Andhra Pradesh and Telangana followed suit in 2014 and Tamil Nadu in 2016. Maharashtra, Uttar Pradesh, Punjab, and Karnataka in 2018 waived farm loans with thresholds ranging from Rs.1-2 lakh per farmer. Each waiver has its variants in terms of content and delivery.

Tenant farming risks also accentuate the demand for write-offs. Tenant farmers' loans are in the nature of gold loans and other forms of short-term credit, rather than crop loans.

Agriculture Ministry data pegging tenant farmers at 14 per cent of all farmers is a serious understatement, as more than 80 per cent of the tenancies are oral. Kerala is the only State that has a tenancy law in place with an implementation mechanism. Data on farmer suicides also confirm

that they occur more among tenant farm holders and small and marginal land owners growing cash crops like cotton, than food or horticulture crops.

Combating credit risk in the farm sector rests more on crop diversification and cross-holding of risks between agriculture and allied activities, such as animal husbandry, than waiving bank loans.

Uneconomic holdings

According to NSSO (70th Round 2012-13), for the agricultural year 2012-13 rural India had an estimated total of 90.2 million agricultural households, which were about 57.8 per cent of the total estimated rural households during the same period. According to Agricultural Census 2010-11, 85 per cent of an estimated 138 million landholdings are marginal and small holdings as compared to a corresponding 62 per cent in 1960-61. The average size of small and marginal holdings was 1.42 hectare and 0.24 ha, respectively, in 2011-12.

Owing to fragmentation of land, the area operated by small and marginal farmers has increased from 19 per cent to 45 per cent of total cropped area in the last 50 years (1961-2011). This would mean that persons of small means and very low capacity to invest in technology and modern practices are engaged in agriculture.

Increase in farm labour costs by almost 100 per cent over the last decade directed the choice of product shifts in favour of labour saving crops. But these shifts did not favour the cause of land consolidation. Nor did they improve the marginal productivity of land. Even in regions of abundant labour supply, crops that do not require intensive input of labour and costly input of well irrigation are chosen.

In areas like coastal Andhra Pradesh that have a higher marginal productivity of land, tenant farming is of the order of 85 per cent of landholdings. This calls for a separate legislation to introduce loan eligibility cards for tenants.

Global examples

There are three successful farmer benefit programmes in vogue in the US since 2002: Annual Direct Payments; counter-cyclical payments if market prices are below the statutorily determined target prices (MSP); and loan deficiency payments or marketing loans that provide interim financing and additional income support if market prices fall below the statutorily determined prices.

These programmes provide a safety net to protect farmers from falling prices and raise farm income level but could raise land prices and concentrate on benefits to certain crops and producers. If agricultural insurance moves in tandem to cover the risks of farmer's life and crops, such distortions could be contained.

Second, pressure on land can be evened out if value addition initiatives are simultaneously financed. Telangana has experimented with the direct cash transfers ahead of the crop season with life insurance of the farmers, the premium for which was paid out of the treasury. Such experiments needed supportive infrastructure like trained extension staff and clean land records. Had the tenant farmers with a sworn affidavit of their terms of tenancy been covered, the experiment may have been more inclusive.

Farm-loan waivers turn nightmare for banks

Farmers in election-bound States have stopped repaying in anticipation of write-offs

G NAGA SRIDHAR | HYDERABAD, DECEMBER 4

THE HINDU BusinessLine

The increasing demand for farm-loan waivers and slippages in existing loan repayments by farmers in anticipation of write-offs are giving banks a nightmare.

Apart from drawing the attention of policy makers and political pundits, last week's mega farmers' rally in the national capital has also created tremors among bankers.

"The expectation of agricultural loan waivers next year when elections to the Lok Sabha and some key States are slated to be held is so high that some farmers in many States have gone slow on their repayment, leading to a bigger bad loan portfolio,'' said a senior official of a leading public sector bank.

While overall data for banks are not available yet, individual cases of election-bound States with loan write-off prospects show increase in agri NPAs.

In Telangana, which is going to polls on December 7, NPAs went up byRs.18,194.49 crore in the quarter ended June 2018. Similarly, non-performing assets in agricultural loans had increased by Rs.4,795 crore in the quarter. While NPAs in agri term-loans crossed 12 per cent, bad loans in total agriculture advances stood at 7.70 per cent.

The NPAs in total outstanding agricultural advances touched 23-30 per cent across States. Bankers are expecting a major announcement in the ensuing Union Budget about waiver of certain categories of farm loans and are gearing up to face it.

Recent waivers

The recent history of waivers is a case in point. These include the Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme announced by the Central government in 2008 and State-specific farm-loan waivers announced by Andhra Pradesh and Telangana in 2014; Tamil Nadu in 2016; and Uttar Pradesh, Maharashtra, Punjab and Karnataka in 2017.

As per RBI data, UP's farm-loan waiver was at Rs.36,000 crore – around 2.5 per cent of its Gross State Domestic Product (GSDP), while in Maharashtra it was atRs.34,000 crore. Punjab provided Rs.1,500 crore in the State budget for 2017-18 for loan waiver, while Karnataka has announced a waiver amounting to Rs.8,100 crore for farmers availing loans from cooperative banks.

The loan-waiver promise by States which had either gone to polls or are now going such as Telangana amount to Rs.40,000-90,000 crore approximately.

At a time when inflation and fiscal deficit are major concerns in the backdrop of stress on other segments of banks loans, loan waivers can only worsen the situation for already beleaguered banks.

Economists and the RBI have also been critical of such moves.

The micro lenders, another key players in rural credit, however, are not worried. "Historically, there has been no data to show that farm-loan waivers adversely impacted MFI advances,'' BR Diwakar, Chief Financial Officer, CreditAccess Grameen Ltd, said. The repayments rates for NBFC-MFIs are over 99 per cent, as per MFIN data.

Mallya offers to repay 100% of principal loan amount to banks

UK court's decision on Mallya's extradition trial expected on December 10

VIDYA RAM | LONDON, DECEMBER 5

THE HINDU BusinessLine

Vijay Mallya has had another go at persuading Indian authorities to accept his settlement before the Karnataka High Court, and this time, the grand gesture has been made on Twitter. Mallya's "offer" comes a week before a judge at Westminster Magistrate's Court is set to deliver her verdict on India's attempt to extradite him.

In a series of tweets on Wednesday morning, Mallya, who is facing legal battles in London, pointed to the "thousands of crores" of rupees the Kingfisher group had contributed to the exchequer both at the national and State level over three decades, while insisting that Kingfisher Airline's woes related to high aviation fuel prices.

“Kingfisher was a fab airline that faced the highest ever crude prices of $140/barrel. Losses mounted and that’s where banks’ money went. I have offered to repay 100 per cent of the principal amount to them. Please take it,” he tweeted.

Claiming that his offer was linked neither to the expected judgment in his extradition case nor to the deportation from Dubai to India of British national Christian James Michel, a middleman in the AgustaWestland VVIP helicopter deal, Mallya said he has been offering to settle the dues since 2016.

The contention that Mallya’s default on loans from a consortium of banks, including IDBI, resulted from a hostile operating environment for the aviation sector, the likes of which had never been seen before, and sky-high oil prices has been central to the businessman’s defence in the extradition case.

During the hearings in London that commenced in December last year and concluded in mid-September, Britain’s Crown Prosecution Service, which represents India in its attempt to extradite Mallya, had argued that he had never intended to repay the loan, used false grounds to obtain them, and used them for purposes they had never been intended for.

However, Mallya’s defence team has argued that the case was politically motivated, and the collapse had been a case of a “business failure” with the loans having been taken out in a meaningful attempt to revive the business in the face of extraordinary challenges that had seen airline businesses struggle globally.

Seeking fair treatment

In his tweets, Mallya also denied the suggestion he had “run away” with funds from public sector banks. “Why don’t I get fair treatment and the same loud noise about my comprehensive settlement offer before the Karnataka High Court. Sad.”

The long-awaited ruling in the extradition case is expected at Westminster Magistrate’s Court on Monday, which could be followed by an appeals process.

Mallya's spirited offer to repay only principal may not fly with creditors

Bankers are wary that the gesture may set a bad precedent

K GIRIPRAKASH | BENGALURU, DECEMBER 5

THE HINDU BusinessLine

In a series of tweets, former liquor baron Vijay Mallya has said he is willing to pay all the money he owes to the 'Indian public', but he, more than anyone else, knows that his latest offer will only stir up a debate in his home country, while the lenders will remain unimpressed.

There are too many cases pending against Mallya including some that are of criminal nature.

The former liquor baron, who fled the country in March 2016, is also accused of round-tripping United Spirits shares.

The almost $2-billion question is how will Mallya be able to convince the legal authorities as almost all his assets worth Rs.13,900 crore are under judicial supervision.

The latest tweets from Mallya follow a recent appeal to the Special Prevention of Money Laundering Court where his counsel said the former liquor baron is willing to sign consent terms with the government about paying his dues to the creditors. But Mallya apparently wants to pay up only the principal amount and not the interest component.

"We will be setting a precedent if we allow Mallya to pay up only the principal amount and get away," a former banker who was associated with the process of getting back the dues from Mallya, said.

In June this year, Mallya filed an application with the Karnataka High Court seeking permission to sell his assets. But nothing has come of it so far.

The Enforcement Directorate (ED) itself has attached Mallya's various properties worth Rs.8,044 crore. This follows a probe launched by the ED

over the alleged loan default of Rs.6,027 crore availed from a consortium of banks led by the State Bank of India.

The assets attached by the ED includes apartments, shares of various companies, farmhouses and fixed deposits.

Probe by SFIO

There have also been reports regarding a probe by the Serious Fraud Investigation Office (SFIO) which allegedly found that Mallya's companies created new divisions to avoid taxes while acquiring Deccan Aviation, the owners of Air Deccan. SEBI is also learnt to be investigating allegations of round-tripping with regard to six accounts held by Mallya. The Enforcement Directorate has repeatedly claimed that the assets of Mallya were from the proceeds generated out of criminal activity through default of bank loans.

It has also claimed that Mallya "criminally conspired" with Kingfisher Airlines and UBHL to obtain funds through the banks. Therefore, it won't be enough if Mallya agrees to return the amount he owes to the banks. That is just one part of the multitude of cases he faces.

Mallya has, however, in earlier statements, claimed that any objections from the law enforcement agencies to his proposal to sell off his assets will demonstrate that there is an agenda against him beyond recovery of dues to public sector banks.

Govt. not to join LIC's offer for IDBI

SPECIAL CORRESPONDENT
MUMBAI , DECEMBER 04, 2018
THE HINDU

IDBI Bank has informed the stock exchanges that the government will not participate in Life Insurance Corporation of India's open offer for the acquisition of 51% stake in the lender.

LIC's open offer to purchase 26% stake in IDBI Bank opened on December 3 and will close on December 14.

"IDBI Bank is in receipt of the letter dated December 3, 2018 from the Government of India confirming that the Government of India will not participate in the open offer made by LIC," IDBI Bank said. LIC had announced an open offer for acquiring 26% stake in IDBI Bank at Rs.61.73 per share, for a total consideration of Rs.12,602 crore.

SC: attach properties of Amrapali

STAFF REPORTER
NEW DELHI, DECEMBER 05, 2018
THE HINDU

Amrapali Group is the worst kind of cheater in the world, says top court

The Supreme Court on Wednesday ordered the attachment and sale of Amrapali Group's five-star hotel, cinema hall, malls and factories across the country.

A Bench of Justices Arun Mishra and U.U. Lalit also ordered attachment of four corporate offices of the group in Noida and Greater Noida, and asked the Debt Recovery Tribunal, Delhi, to auction them. It was hearing petitions by homebuyers seeking possession of around 42,000 flats.

'Cyberattacks cost big firms in India $10.3 mn on an average'

SPECIAL CORRESPONDENT
NEW DELHI, DECEMBER 05, 2018
THE HINDU

Over 3 in 5 organisations surveyed also saw job losses: study

A large-sized organisation in India incurs an average of $10.3 million in economic losses due to cyberattacks, according to a Frost and Sullivan study commissioned by Microsoft.

The study also said cyberattacks cost a mid-sized organisation an average of $11,000 in economic losses.

“Cybersecurity attacks have also resulted in job losses across different functions in more than three in five (64%) organisations that have experienced an incident during the survey period,” it added.

The study ‘Understanding the Cybersecurity Threat Landscape in Asia Pacific: Securing the Modern Enterprise in a Digital World’ surveyed 1,300 business and IT decision makers ranging from mid-sized organisations (250 to 499 employees) to large-sized organisations (more than 500 employees) from 13 markets, including India. It found that more than three in five organisations (62%) surveyed in India have either experienced a cybersecurity incident (30%) or were not sure if they had one as they had not performed proper forensics or data breach assessment (32%).

Keshav Dhakad, group head and assistant general counsel, Corporate, External & Legal Affairs at Microsoft India said, “With traditional IT boundaries disappearing, the adversaries now have many new targets to attack. Companies face the risk of significant financial loss, damage to customer satisfaction and market reputation — as is evident from high-profile breaches this year.”

The survey factors in three kinds of losses that could be incurred due to a cybersecurity breach — direct (financial losses associated with the incident), indirect (the opportunity cost to the organisation such as customer churn due to reputation loss), and induced (impact on the broader ecosystem and economy, such as the decrease in consumer and enterprise spending).

“Although the direct losses from cybersecurity breaches are most visible, they are but just the tip of the iceberg,” Benoy C.S., director and business unit head — digital transformation practice, middle east, North Africa and South Asia, Frost & Sullivan said. “There are many other hidden losses that we have to consider from both the indirect and induced perspectives, and the economic loss for organisations suffering from cybersecurity attacks can be often underestimated,” he added.

Fitch retains negative outlook for banks on weak capital

SPECIAL CORRESPONDENT
MUMBAI, DECEMBER 04, 2018
THE HINDU

'State-run lenders need $38 billion to meet minimum Basel III capital standards'

Rating agency Fitch maintained a negative outlook for Indian banks due to weak capital and said public sector lenders would need more capital than what the Centre had planned to infuse.

"Fitch maintains a negative sector outlook on Indian banks, to reflect the ongoing struggle of state banks with weak core capitalisation amid rising macro headwinds and poor profitability," it said.

Fitch estimated that banks would need $38 billion by FY19 to sufficiently meet minimum Basel III capital standards, and achieve 65% cover for non-performing assets, and to leave some surplus capital for growth.

"It implies that the state will have to inject the $11 billion it plans to inject by FY19 and an additional $6 billion it had earmarked as fresh equity issuance from state banks by FY19, with support from asset sales or other sources to comply with minimum Basel III norms."

Private banks were likely to recover faster than state banks, which shall remain an overhang for the sector. "The rating outlook for most banks mirrors the Stable Outlook on India's sovereign rating," Fitch said. The agency also said banks were likely to report weak earnings for FY19 and that some state-run banks might continue to report losses, though the numbers could be slightly better than that seen in FY18.

"Credit costs have moderated in FY19 but ageing provisions are large enough to absorb the bulk of the weak pre-provision profit." Fitch expects the NPA problem to peak in 2019, but the size and complexity of the sector's $140 billion NPA stock will take time to resolve.

Outlook for banks weak but stable, says Moody's

SPECIAL CORRESPONDENT
MUMBAI, DECEMBER 03, 2018

Moody's Investors Service's said on Monday that outlook for the banking system in India (Baa2 stable) over the next 12-18 months was stable, though weak, as clean-up of legacy problem loans nears completion and corporate health improves.

"Our outlook for the Indian banking system is stable, underpinned by healthy economic growth, and weak but stabilising asset quality," says Srikanth Vadlamani, Moody's vice-president and senior credit officer.

The stable outlook is based on Moody's assessment of six drivers — operating environment, asset quality, capital, funding and liquidity, profitability and efficiency, and government support.

The rating agency, in the annual banking system outlook, said banks have recognised the bulk of legacy problem loans and would start making recoveries from large resolved non-performing loans (NPLs), which will help shore up asset quality.

The degree of success in resolution of large NPAs will determine the extent of asset quality improvements.

However, liquidity constraints at non-bank finance institutions (NBFIs) — increasingly important providers of credit for the economy — will prove a drag on growth. Rising interest rates also represent a risk, it said.

It said capitalisation at public sector banks would remain weak but that government support would provide relief. Public sector banks will continue to grapple with weak capitalisation and depend on government capital injections to meet minimum capital requirements.

It further added profitability of the lenders will improve but remain weak due to high credit costs.

While net interest margins (NIMs) will widen marginally due to a reduction in NPAs but credit costs at public sector banks will remain high despite a decline, and this will weigh on system-wide profitability.

Moody's rate 15 commercial banks in India that account for about 70% of assets in the system. Of the 15, 11 are state-owned, with weaker standalone fundamentals than private sector banks.

Banks put in place new ground rules for consortium lending

The Standard Operating Procedure will ensure effective coordination among lenders during the life cycle of a loan

K RAM KUMAR | MUMBAI, DECEMBER 4

THE HINDU BusinessLine

To ensure that large borrowers do not game the banking system, banks have stitched together a Standard Operating Procedure (SOP) for consortium lending so that there is effective coordination amongthem during the life cycle of a loan – pre-sanction, post-sanction/disbursement, and monitoring.

The SOP, put together at the behest of the Finance Ministry, has been necessitated to overcome, among others, herd mentality among banks in following the loan appraisal by the lead bank, information asymmetry among banks, multiple financing against the same security, and time lags in reporting defaults/frauds. It is also aimed at arresting fresh accretion of bad loans.

To ensure a better turnaround time for loan proposals, the SOP, which is part of the public sector banks' reforms agenda, also specifies timelines for various stages of the loan.

Pre-sanction stage

At the pre-sanction stage, banks want borrowers to put in request for renewal/ enhancement of working capital facilities four months (or any other reasonable period) prior to the due date of renewal.

The request for credit facility, either for project funding and/or working capital, received by the lead bank from an existing borrower, has to be sent to all members of the consortium for their observations/ queries within a specified time frame (say 7 days) with directions that they send their feedback/queries within a week. The consolidated queries will be sent to the borrower within a week.

After receiving additional information/clarification/replies to the queries from the borrower, the initial consortium meeting, which will firm up project cost and working capital requirement, will be held by the lead bank.

The lead bank/core group of banks (as decided) will then appraise the proposal. The appraisal copy will be circulated to all banks for information, seeking further observations, if any, within 10 days.

Following this, members will finalise the terms and conditions, and also the share to be taken by each member bank if there is an increase in funding requirement.

Each bank has to convey to the lead bank/borrower its final sanction within a maximum period of 45 days.

Post-sanction

Upon sanction/ renewal/ enhancement of limits, the lead bank will ensure completion of joint documentation/creation of security/ registration of charges/legal audit. It will also ensure compliance of all stipulated terms and conditions of sanction prior to disbursement and issue confirmation to all consortium member banks.

The inspection/verification of securities may be done by the lead bank or member banks in rotation, with the report being shared with all members.

The lead bank will calculate the drawing power based on inspection of stocks/ book debts, and share the same with all member banks to facilitate working capital disbursement.

In the case of project loans, the lead bank will monitor the project progress and ensure periodic disbursement by the member banks.

As per the SOP, the (loan) release order/ instructions will be issued by the lead bank with information regarding availment/ release of limits being shared among member banks on a weekly basis or as per need.

All member banks will be sharing statement of account pertaining to the borrower at monthly intervals.

The lead bank will review financial covenants of the borrower in quarterly consortium meeting on the basis of quarterly progress report (submitted by the borrower).

In case of non-compliance of any of the benchmark financial covenants, penal interest for the breach will be charged by all banks. Concrete steps initiated by the borrower for curing the breach will be discussed, and the timeline for compliance of the various benchmark covenants, will be minutised.

Controlling and monitoring of Trust and Retention Account/ Escrow/ central account operations of the company will be in one place, with the lead bank or as specified. The lead bank, in consultation with other lenders, can engage the services of project management consultants for monitoring the implementation and progress of the project.

The SOP requires periodical exchange of information among consortium banks on monthly/quarterly basis. Unsatisfactory features observed by the lead bank, or any other member bank in the conduct of account, devolvement of letter of credit/ bank guarantee will be shared among all the banks and discussed.

Temporary support extended in the form of additional finance over and above the sanctioned limits by any of the member banks has to be apprised to the consortium. Borrowers cannot raise finance outside the consortium without obtaining its prior no-objection certificate.

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