RBI swings into action after banks indicate rising asset quality pressure

Last Updated at May 5, 2021 12:29 IST

In view of the surging coronavirus (Covid-19) second wave which has resulted in lockdowns in several states, the Reserve Bank of India (RBI) has swung into action after banks indicated mounting asset quality pressures. Central bank Governor Shaktikanta Das made an unscheduled announcement on Wednesday in which debt restructuring was allowed for individual and small borrowers who had not availed a similar scheme announced last year when the Covid-19 pandemic first broke out.

Termed Resolution Framework 2.0, the scheme allows individual and MSME borrowers of upto Rs 25 crore to avail a debt recast. The debt restructuring scheme must be invoked by September 30 and needs to be implemented within 6 months of invocation.
Under any normal debt recast, banks need to set aside 15-20 per cent of the capital as provision. But under such special schemes, the provisioning burden is lower. In last year's scheme, the provision mandated was 10%.

"While the NPA situation was improving in the third quarter and led to increasing collections, but since March, after the infection surged, collections were impacted," said a senior banker from a large public sector bank.

"Face to face collections were impacted. A large number of recovery staff were infected," the person said.

In respect of individual borrowers and small businesses who have availed restructuring of their loans in 2020, where the resolution plan permitted moratorium of less than two years, lenders have been permitted to use this window to modify such plans to the extent of increasing the period of moratorium and/or extending the residual tenor up to a total of 2 years, the RBI said.

The central bank held a series of meetings with bankers in which feedback was sought from them on the impact of the second wave.

Bankers said that they suggested to the RBI not to extend a blanket loan recast scheme or repayment moratorium as the lockdown is not nationwide and is limited to certain states.

"We mentioned that we should not have a blanket moratorium like last year. Last year's impact of lockdown was uniform across the country. One blanket moratorium was very useful last year, but this year the impact is different in different places.

Rather than a blanket moratorium, we should be given the option of recast on a case b case basis" said PN Vasudevan, MD & CEO, Equitas Small Finance Bank.

The RBI governor and deputy governors meet chief executives of small finance banks to assess the current economic situation and take stock of credit flow to different sectors and potential stress on bank's balance sheet.

RBI, on Wednesday, announced a few steps to encourage SFBs to increase the credit flow to small borrowers.

First, the RBI will conduct special three-year long-term repo operations (SLTRO) of Rs 10,000 crore at repo rate for the SFBs, to be deployed for fresh lending of up to Rs 10 lakh per borrower. This facility will be available till October 31, 2021.

"This is a useful measure because almost 80% of our lending is less than Rs 10 lakh. So most of our borrowers will be covered in this scheme," Vasudevan told Business Standard.

The other measure is that SFB loans to small microfinance institutions (MFI) – that is MFIs with asset size of Rs 500 crore - will be considered priority sector loans. Till now, this benefit was allowed to universal banks, but not SFBs. This also encourages SFBs to lend to small micro lenders for on-lending to small borrowers.