



Pact to Resolve Stressed Assets

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Seventeen public sector banks, five private sector banks and two other financial institutions have signed the inter-creditor agreement (ICA) that aims to fast-track the resolution of bad loans.

- The agreement was framed under the aegis of the Indian Banks' Association and is part of Project Sashakt, a five-pronged strategy to resolve bad loans, proposed by a committee led by Punjab National Bank non-executive chairman Sunil Mehta.
- The ICA is applicable to all corporate borrowers who have availed loans for an amount of Rs. 50 crore or more under consortium lending / multiple banking arrangements.
- The lender with the highest exposure to a stressed borrower will be authorised to formulate the resolution plan which will be presented to all lenders for their approval.
- The decision making shall be by way of approval of 'majority lenders' (i.e. the lenders with 66% share in the aggregate exposure). Once a resolution plan is approved by the majority, it shall be binding on all the lenders that are a party to the ICA.
- Dissenting lenders will have an exit route, i.e they can either sell their exposure to another lender at a 15% discount or buy the entire exposure of all the banks involved, at a 25% premium.
- The clauses of "decision by majority lenders" and "exit route for dissenting lenders" will address one of the major issues of lack of consensus among the lending banks on a common resolution plan.
- This agreement will be terminated in case there is any guidance or prescription from the RBI or any other regulatory or governmental authority to terminate it.