Banks Seek Another Moratorium

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Why in News

The banking sector is pushing for a moratorium on loan repayments by another **three months to 31st August,** easing of **bad loan (Non-Performing Assets) recognition norms** from 90 days to 180 days and **one-time restructuring of loans** as relief measures to tackle the impact of **lockdown** and the slowdown in the economy due to **Covid-19** pandemic.

> These demands were raised at the recent meetings of the **Reserve Bank of India** (RBI) top officials with the chiefs of banks and **Non-Banking Financial Companies** (NBFCs).

Key Points

- **Background:**
  - On 27th March, 2020, the RBI announced a **three-month moratorium** (1st March to 31st May) on loan and **card repayments** and **slashed its main policy rate, Repo rate** by 75 basis points and **Cash Reserve Ratio** (CRR) of banks by 100 basis points to stabilize the financial markets and reduce the pain on borrowers.
  - The RBI had stipulated banks should create a **10% provisioning on all loans** that are overdue but not yet a **non-performing asset** (NPA) and where moratorium has been approved.
  - While the provisioning could be adjusted against the provisioning for slippages into NPAs during fiscal 2021, it becomes important to see how the **banking sector manages asset quality** in the near term post the moratorium period.
- **Use of Moratorium Provision :**
  - In the **retail** segment, higher instances of moratorium utilisation were observed in **agri loans, micro-credit, commercial vehicle loans and other unsecured retail products like credit cards.**
  - Several **borrowers** opting for moratorium had sufficient account balances indicating that borrowers want to be more liquid.

- **Reasons Behind Demands:**
  - Extension of moratorium is **required** as **factories are unlikely to start production** in May due to curbs in many important industrial belts, supply chains remain broken and job losses have increased.
  - It will imply companies **need not pay till 31st August,** and it also implies almost minimal possibility of companies being able to pay their interest liabilities then in September, **failing which the account might be classified NPA** as per existing norms.
    - Currently, loans in which the borrower fails to pay principal and/or interest charges within 90 days are classified as NPAs and provisioning is made accordingly.
  - Banks want the NPA recognition limit to be raised to 180 days to limit the surge in NPAs.
  - Restructuring of loans will help in easing the interest burden on borrowers.
  - Also, bankers are not sure whether RBI will change its **'June 7 circular'** concept on stressed assets and restructuring.
    - **RBI's Prudential Framework for Resolution of Stressed Assets June 7 circular,** mandates banks to recognize stress and initiate a review of default within 30 days. The June 7 circular is stringent and gives little flexibility to banks.
- **Negative Impact:**
  - Extension means a **delay in payment and borrowers will have to shell out the installments and interest charges** later.
  - Banks are already facing sluggish credit offtake and a spike in non-performing assets due to the lockdown and the contraction in the economy.
  - According to **Crisil** ratings, NPAs are set to rise by 150-200 basis points this fiscal (2020-21).

Way Forward

- Banks and NBFCs have raised these demands as **moratorium alone is not sufficient** to come out of the crisis.
- The RBI needs to give **operational flexibility to banks** for a **comprehensive restructuring of the existing loans** and also a reclassification of 90-day norm.

Source: IE