



## Rising NPAs due to Unrated Loans

Why in News

- According to data from the Reserve Bank of India (RBI), [Non-Performing Assets \(NPAs\)](#) for **unrated loans has increased to 24 % (2018) from about 6 % (2015)**.
  - Unrated Loans are loans that are **not rated by credit rating agencies**.
- **High levels of NPAs in unrated loans** indicate **more economical risk** for the banks as unrated loans are not secured through ratings.

Credit rating	Rating description
AAA	Prime
AA+	High grade
AA	
AA-	
A+	Upper medium grade
A	
A-	
BBB+	Lower medium grade
BBB	
BBB-	
BB+	Non Investment grade speculative
BB	
BB-	
B+	Highly speculative
B	
B-	
CCC+	Substantial risks
CCC	
CCC-	
CC	Extremely speculative
C	Default imminent
RD	In default
SD	
D	

### Key Points //

- **Unrated borrowers** account for about **60% of the total number and 40% of the total exposure of large borrowers**.
  - The central bank requires banks to report individual exposure of **more than Rs 5 crore** with the **Central Repository of Information on Large Credits (CRILC)**, to

- capture **data on large borrowers**.
- The borrowers having an aggregate fund-based **working capital of Rs 150 crore and above** are termed as **large borrowers**.

## How Unrated Loans and Related NPAs can be Reduced?

- By regularising credit ratings for loan exposure, RBI has **raised risk-weighted Assets** on unrated loans.
  - **Higher risk-weighted assets** on unrated loans **reduce the capacity of banks to lend such loans, thereby** encouraging them to get such loans rated.
  - **The risk-weighted assets** are used to determine the **minimum amount of capital** that must be held by banks **to reduce the risk of insolvency**.
- Banks also need to consider rated exposures as some of the private sector banks **experienced significant stress** in their exposures to **the credit rating of BB category (and below it) rated loan accounts**.
- However, the [RBI's Financial Stability Report](#) projected the **gross NPA ratio of all banks to come down from 9.3% in March 2019 to 9.0 %by March 2020**.
  - The recoveries pick up pace due to the resolution of some cases under the Insolvency and Bankruptcy Code and banks write off their bad loans.

## Central Repository of Information on Large Credits (CRILC)

- It has been constituted by RBI in 2014 to collect, store, and publish data on all borrower's credit exposures
- Banks will have to provide credit information to CRILC about their borrowers with an aggregate fund-based and non-fund based exposure of and over Rs.5 Crores (Rs.50 million).
- It also helps financial institutions and banks to assess their non-performing assets (NPAs) and also share this information with other institutions.

[Source: IE](#)

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