JYOTINDRA MEHTA
PRESIDENT

NAFCUB

Date: 6 April 2020

Respected Governor Shri Shaktikanta Das ji

Relaxation in Regulatory norms of Income Recognition, Asset Classification, Provisioning and other related matters

1. The banking sector is generally happy for the regulatory relaxation package for the lenders and borrowers by RBI and the subsequent issue of detailed guidelines, in the wake of global spread of COVID 19 pandemic. At this stage it is however difficult to estimate as to when the crisis would be over. Even the RBI itself refrained from guessing the overall impact of the crisis on the growth and inflation estimates in their announcement on Monetary Policy and has kept it open to take additional measures as warranted by future developments in this regard.

2. We at NAFCUB are seriously concerned about the impact on the health of UCBs most of whom are small entities with limited ability to withstand the financial shocks that the situation is likely to inflict, unless significant relaxations are granted to them.

(a) As per Financial Stability Report December 2019 published by RBI, the global financial slowdown has impacted the banking sector in India. Hence even the performance of Scheduled UCBs was also impacted adversely between March and September 2019. As is widely known, UCBs tend to focus on their recovery of dues towards the year end and hence the performance of non-scheduled UCBs with regard to NPAs and provisioning will also be affected, as per the trends in September 2019.

(b) As you are well aware that UCBs cater to the financial needs of the poor, small business retail trade, MSME, housing and SHG/JLG, etc. The above segments having major exposure in credit portfolios of UCBs, have been feeling the brunt of slowing economy during the entire financial period ending March 2020. The lockdown due to COVID 2019 has accentuated the problem of disruption and has thus hit the sales, revenues leading to increasing cash flows problems. Several borrowers have seen their

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Debt Equity ratios, Return on Capital go for toss. Further the cash flows have also been impacted due to mark to market pressures.

All the major UCBs and their District/State Federations are raising their concerns about the MSME loans and loans extended to manufacturing and real estate sectors where fresh NPAs are imminent as the operations of all these segments of borrowers may not be normal soon. The consumer durables, transport operators and jewellery traders may also take a long time before there is a demand revival. As per the leading rating agencies, asset classes such as micro finance, SME borrowers and unsecured loans including LAP segment will see continuing pressure on asset quality due to weaker profile of these borrowers.

(d) The above position indicates that there would be considerable spike in the level of NPAs in banks in general and UCBs in particular as UCBs by nature have adverse selection of borrowers. Their restricted ability to raise capital and the onslaught of competition from other lenders and limited resources for continuous upgradation of technology adds to their disadvantage.

It can therefore be estimated that the level of NPAs may double by 31st March 2020 from September 2019. Needless to mention that unprecedented situation which is not of banks' making, require quick response and out of the box thinking to tackle the enormous damage likely to be caused by it.

It is therefore requested as under:-

(i). In view of the extra ordinary global situation and in the country, all type of loans I e Term Loans, working capital/overdraft credit facilities and other loans may be permitted to be classified as per 180 day norm with effect from January 01, 2020 till the normalcy is restored. Forbearance may also be granted for provisioning for NPAs identified due to 90 days norms which may be kept in abeyance. The existing norms for classification of overdue accounts may accordingly be revised to consider overdue for 0 to 60 days in category SMA-0, overdue for 60 days to 120 days in SMA1 and overdue from 120 days to 180 days in SMA 2 category. Further identification of NPAs on an ongoing basis and the consequent provisioning in every quarter

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may not be insisted upon by RBI. The concept of record of recovery as strictly defined in IRACP norms may not be implemented strictly. And the Inspecting Officers may be sensitized in this regard.

(ii) All loan accounts including personal and retail loans which have been classified as SMA-0 to SMA 2/ NPAs may be permitted for restructuring/rescheduling without provisioning and downgrading as required as per extant instructions.

(iii) Interest accrued but not received during January to March 2020 may be permitted to be converted as WCTL and paid in fixed installments.

(iv) Any excess provisioning held by any UCB as a consequence of the above may be reckoned as a part of capital funds for the purpose of CRAR and net worth as on March 31st, 2020.

(v)The stringent parameters of CAMELS rating may be kept in abeyance to ensure that there is no steep hike in C and D rated UCBs as on March 31st, 2020.
Further the UCBs placed under Direction under Section 35A of B.R Act 1949(AACS) may be granted a further time of one year for turnaround or revival through merger and amalgamation.

(vi) NAFCUB has been opposing the idea of BOM in UCBs and has expressed its reservation to the RBI in this regard. Despite the above UCBs in Tier I category have been advised to implement the same failing which they may not be eligible for branch expansion and extension in their area of operation.

RBI has also hurriedly issued instructions revising the method of computation of single/group exposure norms with reference to Tier I capital despite suggestions of NAFCUB to continue with the existing framework as it will constrict the ability of UCBs considerably to lend.

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JYOTINDRA MEHTA
PRESIDENT

NAFCUB

The priority sectors targets for UCBs have been steeply increased from 40% of ANBC to 75% of ANBC over a period of time.

Recently the SAF framework for UCBs has been further made stringent by advancing the trigger points of CRAR, Net worth, level of net NPAs and Profitability which will bring more UCBs under prohibitive restrictions.

As all the above instructions have direct bearing on the core functions of banking of UCBs and their governance structure and may jeopardize their normal functioning, it is requested to keep their implementation in abeyance for at least one year till the normalcy is restored.

It is our considered view that in these times of uncertainty RBI will do well to consider the above issues and grant their approval to the above proposals in the interest of UCBs and economy

With kind regards

Yours Sincerely

Jyotindra

(Jyotindra Mehta)

To,

Shri Shaktikanta Das
Governor
Reserve Bank Of India
Mumbai 400001.

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