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BANKING SNIPPETS FOR OCTOBER 2017

1. **GOVERNMENT ANNOUNCES Rs 2.11 LAKH CRORE RECAPITALISATION PLAN FOR PSU BANKS:** The Finance Ministry announced Rs 2.11 Lakh crore bank recapitalisation plans for Public Sector Banks. Out of this total commitment, Rs 1.35 lakh crore will come from the sale of recapitalisation bonds. The remaining Rs 76,000 crore will be through budgetary allocation and fund raising from markets. Indian Banks are sitting on a stressed asset pile of close to Rs 9.50 lakh crore, crippling their ability to give fresh loans. The bank Recapitalisation would ensure that the banks can start fresh healthy lending which will be a boost to the economy.

2. **HOME AND PERSONAL LOAN INTEREST RATES CAN SOON BE BASED ON MARKET RATES:** Very soon the interest rates on Housing and Personal loans will be linked to external benchmark rates arrived at by market trading, rather than leaving it to the discretion of each banks as is being done now. The RBI committee also suggested a ban on bank charging a conversion fee whenever the bank resets the interest rate.

3. **GST HAS CRASHED PRIVATE MONEY LENDERS' INTEREST RATES:** The interest rates charged by money lenders to its borrowers were always high in spite of policy decisions by the government. But now due to the demonetization and GST effect, these interest rates are collapsing because there is hardly any demand left for this informal funding. Because of GST implementation, borrowing in the informal money market is no longer lucrative.

4. **RBI ISSUES GUIDELINES FOR PEER-TO-PEER (P2P) LENDING PLATFORM:** The RBI has issued directions for Peer-to-Peer (P2P) lending platform. These directions will be known as "The Non-Banking Financial Company--Peer to Peer Lending Platform (Reserve Bank) Directions". As per the directions the P2P lending platform should have a minimum of Rs 2 crore capital and they cannot take any loan exposure for themselves. The P2P platforms have to become full-fledged members of Credit Information Companies (CIC) and have to share all loan disbursal information.

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5. **CASH FLOW WILL DECIDE SBI LOANS TO SMALL ENTREPRISES NOW:** The nation's biggest bank, SBI is starting a new era of credit appraisal for funding small scale companies. SBI now will assess the borrower's bank statements instead of the balance sheet. The bank will now evaluate a company's ability to repay the loan based on their cash flow and for this the bank will draw analysis from their bank statement for one year and collaborate with their balance sheet. The practice of lending based on borrower's bank statement is already being followed by NBFCs and some private banks. Basically the evaluation of bank statement will focus on the financial discipline and earning capacity of the borrower.

6. **BAD LOANS CONTINUE TO HAUNT BANKS:** The bad loan scenario for Indian Banking sector is increasing day by day. The bad loans of all Banks put together hit a record Rs 9.5 lakh crore ($ 145.55 Billion) at the end of June 2017. A review of RBI data obtained through right-to-information request shows that banks' total stressed loans (including Non-Performing Asset and restructured loans) rose by 4.5% in six months. This has eaten banks' profits and choked off new lending, especially to smaller firms.

7. **INDUSIND BANK TO TAKE OVER BHARAT FINANCIAL:** Indusind Bank and the second largest micro lender Bharat Financial Inclusion (BFIL) announced the largest merger in the MFI space. With this merger Indusind will add additional 6.8 million customers to its existing 10 million customer base. This merger will help Indusind Bank in rural lending and also help reduce its cost of funds by 3--4 %. The entire balance sheet of BFIL will move into Indusind Bank, while its operation team will continue as a wholly owned subsidiary and work as business correspondents.

8. **BANKS' CONSOLIDATION MAY LEAD TO 10-15 BANKS:** As per a senior Finance Ministry adviser, a planned consolidation in India's state run banking sector may lead to 10 to 15 lenders. Currently there are 21 banks. The government may even cut its stake in state-run banks to 52%.

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9. **RBI INITIATES "PROMPT CORRECTIVE ACTION (PCA)" ON ORIENTAL BANK OF COMMERCE:** The Reserve Bank of India has imposed Prompt Corrective Action (PCA) on Oriental Bank of Commerce (OBC) in view of high Non-Performing Assets. The bank has suffered huge losses due to sharp rise in bad loans. OBC will now face restrictions in terms of opening of branches, hiring staff and lending to sub-investment companies.

10. **NPA-LADEN BANKS LOOKING TO AVOID BANKRUPTCY COURTS:** Banks are planning to seek regulatory exemption from taking the second lot of 30 defaulters to bankruptcy courts as such a step tends to erode value of assets. As per RBI directions, these 30 companies with loans amounting to Rs 1.25 lakh crore are set to be referred to bankruptcy courts by December 31st if a resolution is not found. At a meeting last week top bankers decided they would tell RBI that they would provide for 50% of the value of the loan amount but will not try the defaulters under the Insolvency and Bankruptcy Code (IBC) as it would lead to the potential bidders (acquirers)putting in low bids, putting the banks in to heavy losses.

11. **BANK UNION SAYS CAPITAL INFUSION IS ONLY TEMPORARY RELEIF, FOCUS SHOULD BE ON NPAs:** The All India Bank Employees Union (AIBEA) has welcomed the government's decision to infuse additional capital in public sector banks but termed it as a short term relief but not a long term cure. The union press release said that the additional capital will help banks to lend more, but this will not help the banks to come out of the NPA web they are in now. Hence the union is of the opinion that concentrating on the on-going NPA menace and recovery of bad loans is the real long term solutions for the banks.

12. **BANKS RECAPITALISATION MAY MAKE FISCAL DEFICIT TARGET HARD TO ACHIEVE:** The Fitch Ratings has said that the massive 2.11 lakh crore capital infusion to public sector banks may make the 3.2% fiscal deficit target for 2017-18 very difficult to achieve for the government.

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13. **BANKS BEGIN TO ACCEPT GST INPUT CLAIMS TO GRANT WORKING CAPITAL LOANS:** More than 90 days after the roll-out of GST , bankers are looking up to sanction working capital advances especially to micro and small units , against the documents used in the new GST regime. Bankers are no longer looking at just the sales of the units concerned to decide the loan sanctions. Banks are now looking at GST input credit also in deciding how much working capital loans they should advance.

14. **BANKS NEED TO SET ASIDE Rs 3.3 LAKH CRORE AS NPA PROVISIONING IN FY-18:** Banks are likely to need nearly Rs 3.3 lakh crore this fiscal as provisioning for large NPA accounts in the current financial year. This is as per a report by CRISIL. This will facilitate faster clean-up of their balance sheets. This will be 50% more provisions provided for NPAs as compared to last year (last year NPA provisions was 2.2 lakh crores).

15. **RESERVE BANK OF INDIA SETS UP TASK FORCE ON PUBLIC CREDIT REGISTRY:** Reserve Bank of India has set up a high level task force on a Public Credit Registry (PCR) with an aim to improve ease of doing business and control delinquencies. The 10 member panel will be headed by Mr. Y. M. Deosythalee, former CMD of L&T Finance Holdings. The PCR would help in enhancing efficiency of the credit market, increase financial inclusion, and improve ease of doing business and help control delinquencies.

16. **PSB CONSOLIDATION OFF THE TABLE FOR NOW:** The drive for consolidation among public sector banks will subside with the government announcing the massive recapitalisation scheme. Now the focus will shift to nursing ailing PSBs back to health. With the government assurance on infusion of capital, the focus in the coming quarters will shift to enhancing recoveries, risk management and improving the liability portfolio. This will eventually help banks to be ready for prudent lending; hence the government's decision on consolidation of banks may not be taken up immediately.

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