




# REHABILITATION RECOVERY

CHAPTER 24 Module C ABM By Ashish Jain

Part - 1

## CREDIT DEFAULT

When a borrower **can't or won't** repay a loan, it's called **credit default**.

 Situation	 Meaning	 Example
<b>Direct Loan Default</b>	Principal/ interest is not repaid on time.	Ravi took a ₹1 lakh loan but did not repay.
<b>Guarantees/ LCs Default</b>	Guarantor fails to pay when the borrower defaults.	Sita guarantees a loan for her friend, who defaults, and she doesn't pay either.
<b>Treasury Default</b>	Contractual payments are not made.	A company agrees to buy foreign currency but doesn't pay on the due date.
<b>Securities Trading Default</b>	Settlement of funds/securities is not done.	Rahul sells shares but does not deliver them to the buyer.
<b>Cross-Border Exposure Default</b>	Restrictions imposed on fund transfers across countries.	An Indian firm can't send money back from its US branch due to new government rules.

NPB

Contingent liability

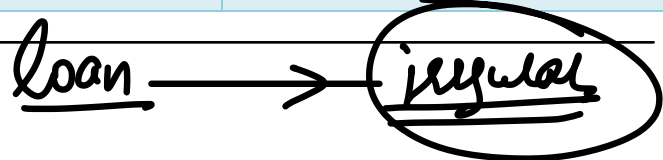
#3

#4


#5

IRAC

## STRESSED ASSETS



Stressed assets are loans **already defaulted** or at **high risk** of default.

 **Example:** A loan given for a factory project but the project is abandoned before repayments start.

Type	Meaning	Example
Standard Assets	Regularly paying loans	Ajay pays his EMI on time.
Sub-Standard Assets (12M)	Loan overdue for less than a year	A business loan unpaid for 6 months.
Doubtful Assets	Loan overdue for more than a year	A housing loan defaulting for 13 months.
Loss Assets	Loan considered non-recoverable	A bankrupt company's unpaid loan.


#1

DF1 12  
DF2 24  
DF3 >36

loan → provision  
Agri → 0.25%  
CRE - 1%  
CRE-RM 0.75

 **NON-PERFORMING ASSETS (NPAs)**

When a loan stops generating income, it becomes an NPA.

 **Provisioning Coverage Ratio (PCR):** Banks keep a portion of funds aside to cover potential losses from NPAs.  $PCR = \frac{\text{Total provision}}{\text{Gross NPA}} \times 100$  0.40%




 **WILFUL DEFAULTERS**

A wilful defaulter is someone who intentionally doesn't repay despite having money.

Situation	Explanation	Example
Not repaying despite having funds	Business makes profits but refuses to pay the bank.	A rich businessman avoids repaying his loan.

<b>Using funds for other purposes</b>	Loan is taken for business but used to buy a luxury car.	A company diverts a factory loan for stock market investments.
<b>Siphoning funds</b>	Moving loan funds elsewhere, making them untraceable.	A startup moves borrowed money into the founder's personal account.
<b>Selling secured assets</b>	Selling collateral without informing the bank.	A factory owner sells machinery given as loan security.

## **DIVERSION & SIPHONING OF FUNDS**




Concept 	Meaning 	Example 
<b>#1</b> Diversion of Funds	Loan used for purposes other than agreed. <i>(T/L) → Activity</i>	A shopkeeper takes a business loan but spends it on personal travel.
<b>#2</b> Siphoning of Funds <i>Risky</i>	Loan money is used in an <u>unrelated sector</u> , <u>harming financial health</u> .	A builder moves a housing project loan into crypto investments.

## **PUBLISHING PHOTOGRAPHS OF WILFUL DEFAULTERS**

### **RBI Guidelines:**

- Banks can publish photos of wilful defaulters only after due process.
- Board of Directors must approve policies before publishing photos.
- Education loan defaulters should not be publicly shamed.

 **SUMMARY TABLE**

 Term	 Meaning	 Example
#1 <b>Credit Default</b>	Failure to repay a loan.	Ravi doesn't repay his ₹1 lakh loan.
#2 <b>Stressed Assets</b>	Loans that have defaulted or are at risk.	A stalled factory project loan.
#3 <b>NPAs</b> <u>Cash basis</u>	Loans that stop generating income. <u>borrowerwise</u>	A loan unpaid for over 90 days.
#4 <b>Wilful Defaulters</b>	Intentional non-repayment despite having funds.	Business loan used for buying a villa.
<b>Diversion of Funds</b>	Loan used for purposes other than agreed.	Business loan used for a personal holiday.
<b>Siphoning of Funds</b>	Loan money transferred to unrelated activities.	Company loan moved into personal stock trading.

**Imp**



## NON-COOPERATIVE BORROWERS

A Non-Cooperative Borrower is one who intentionally does not work with the lender despite having the ability to pay. This includes:

**Defaulting** on payments despite having funds.

**Refusing** to share financial details required by the lender.

**Blocking lender access** to financed assets or collateral.

**Obstructing the sale** of mortgaged properties.

**Preventing** legitimate recovery efforts by banks.

**NCB**




## Criteria for Classification & Reporting to **CRILC**

Criteria	Details
<b>Cut-Off Limit</b>	Borrowers with ₹5 crores or more exposure (fund-based + non-fund-based).
<b>Who is Included?</b>	<ul style="list-style-type: none"> <li>- <b>Companies:</b> The company, its promoters &amp; directors (except independent/Govt. nominated directors).</li> <li>- <b>Business Enterprises:</b> Owners or managers responsible for business operations.</li> </ul>



## Transparent Classification Mechanism


Banks **must not** classify a borrower as non-cooperative based on a **single instance.**


 A Senior Committee (Executive Director + two General Managers/ DGMs) must make the decision.

## #imp Steps to Declare a Borrower Non-Cooperative

- ✓ 1 Committee Decision: If classified as non-cooperative, a **Show Cause Notice** is issued.
- ✓ 2 Opportunity to Respond: Borrowers (including promoters/directors) can submit an explanation.
- ✓ 3 Personal Hearing Option: A hearing may be granted if necessary.
- ✓ 4 Final Order: The borrower is recorded as **non-cooperative** with valid reasons.
- ✓ 5 Review by Higher Committee: A **Review Committee** (Chairman/CEO + 2 Independent Directors) confirms the decision.

## Reporting to CRILC

 **Banks must report** non-cooperative borrowers **within 21 days** from the end of the quarter.

*Imp*  **Half-yearly reviews** to assess if the borrower has returned to **credit discipline**.

★ **If improved**, the borrower's name can be removed with **valid justification**.

**Higher Risk & Provisioning for Fresh Loans**

**New Loans to Non-Cooperative Borrowers** → Considered **high risk**




*secured 15%  
Unsecured 25%*

**Higher Provisioning Requirement** (same as substandard assets) for:

- ✓ New loans sanctioned to **non-cooperative borrowers**.
- ✓ Any company where these borrowers are **directors**.
- ✓ Any firm where these borrowers **manage operations**.

**Summary Table**

Term	Meaning	Example
<b>Non-Cooperative Borrower</b> #1	A borrower who refuses to engage with lenders despite ability to pay.	A businessman who blocks the bank's efforts to recover loans.
<b>Cut-Off Limit</b> #2	Borrowers with exposure of ₹5 crore or more.	A company with ₹7 crore in loans failing to share financial details.
<b>Classification Mechanism</b> #3	Decision taken by a senior committee, followed by review.	A firm blocking sale of its mortgaged factory being declared non-cooperative.
<b>Reporting to CRILC</b> #4	Details must be reported <b>within 21 days</b> .	A bank updating CRILC on a non-cooperative defaulter in Q1.

 <b>Risk &amp; Higher Provisioning</b>  <b>#5</b>	New loans sanctioned to such borrowers will have <b>higher risk provisioning.</b>	A company run by a non-cooperative borrower receiving a fresh loan under stricter norms.
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## **OPTIONS AVAILABLE TO BANKS FOR STRESSED ASSETS**

Not all credit defaults result in a **total loss** for banks. Banks may recover their dues **fully, partially, or not at all**. The key to maximizing recovery is **timely action and the right strategy** considering **economic conditions, legal frameworks, and social aspects**.

### **Steps Banks Follow for Stressed Assets**

#### **(a) Rectification** / *Regular*

- **Regularization:** Persuading the borrower to **clear dues** and stay **regular** with repayments.
- **Exit from the Account:** If stress symptoms appear **early**, the borrower may **shift** to another bank with a different credit appetite.
- **Consortium/ Multiple Banking:** Other banks may **take over** the stressed exposure.
- **Tactics for Exit:**
  - **Withdrawing concessions & benefits.** #1
  - **Enforcing all covenants strictly.** #2



- o Reducing limits & denying overdrafts. #3

**(b) Restructuring**

If default is not wilful, and the business has **viability**, banks may restructure loans.

#1  
#2  
#3  
#4  
#5

Restructuring Methods	Description
<u>Moratorium Period</u>	Extending the grace period before repayments start.
<u>Extended Repayment</u>	Longer time to repay in smaller amounts.
<u>Lower Interest Rates</u>	Reduced pricing to ease the borrower's burden.
<u>Fresh Funding</u>	<u>Additional working capital to revive business.</u>
<u>Conversion to Long-Term Loans</u>	Changing short-term obligations into medium/long-term loans.

**(c) Recovery Measures**

If rectification & restructuring fail, banks **initiate legal recovery**:

#1  
#2  
#3

Legal Forum	Description
Civil Courts	For cases where the <b>due amount is &lt; ₹20 lakh</b> . A final decree must be executed within <b>12 years</b> .
Debt Recovery Tribunals (DRTs)	Special courts for <b>cases ₹20 lakh &amp; above</b> , ensuring faster resolution.
CERSAI (Central Registry of Securitisation Asset Reconstruction & Security Interest of India)	<b>Registry of secured assets</b> , ensuring priority of registered creditors.

#4

**Insolvency & Bankruptcy Code (IBC, 2016)**

Ensures structured insolvency resolution process.

**(d) Compromise Settlements**

📖 If legal action is **too lengthy or ineffective**, banks may **negotiate** settlements.

✅ The **Present Value (PV)** of compromise should be **higher than PV** of **realizable security value**.




**(e) Write-Offs**

📖 When all recovery efforts fail, banks may **write off the bad debt**.


Type	Description
<b>Technical Write-Off</b>	Cleansing of NPAs from balance sheet <u>without impacting P&amp;L.</u>
<b>Actual Write-Off</b>	Charge-off against <b>Profit &amp; Loss Account</b> , leading to financial loss.
<b>Recovery Rights Retained</b>	<u>Even after write-off, banks retain the right to recover dues.</u>

**Summary Table**


Option	Meaning	Example
<b>#1</b> 🔧 <b>Rectification</b>	Persuading borrower to regularize account.	Bank warns a delayed EMI payer to clear dues.
<b>#2</b> 🌟 <b>Restructuring</b>	Modifying terms to make repayment easier.	Loan repayment extended from 5 to 10 years.


 <b>Legal Recovery</b> <b>#3</b>	Legal actions to recover dues.	Filing a case in <b>DRT</b> for ₹25 lakh default.
 <b>Compromise</b> <b>#4</b>	Settling dues for a <b>negotiated amount</b> .	Bank agrees to take ₹70 lakh instead of ₹90 lakh.
 <b>Write-Off</b> <b>#5</b>	Removing uncollectible debt from books.	Bank writes off an irrecoverable loan after <b>all efforts fail</b> .


## **RBI GUIDELINES ON RESTRUCTURING OF ADVANCES BY BANKS**


 Banks can restructure accounts classified under **Standard, Sub-standard, and Doubtful** categories.

 **No restructuring is allowed with retrospective effect.**

 Restructuring requires **formal consent** of the borrower, except in **special cases** initiated by the bank.

 **Only viable accounts** should be restructured, ensuring reasonable certainty of repayment.

 **Viability assessment** should follow predefined **benchmarks** based on the merits of each case.

 **Non-viable accounts should not be restructured**; instead, banks should **accelerate recovery measures**.

 **Restructuring without proper viability checks** will be treated as