

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3828
ANSWERED ON:16.12.2011
VIOLATION OF LOAN POLICY BY BANKS
Rajukhedi Shri Gajendra Singh

Will the Minister of FINANCE be pleased to state:

- (a) whether certain Public Sector Banks (PSBs) have reportedly violated their loan policy approved by their respective Boards in restructuring of loans of the large corporate borrowers in the recent past;
- (b) if so, the details thereof and the reasons therefor; and
- (c) the action taken/being taken by the Government/RBI against such banks?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): The Reserve Bank of India (RBI) has reported that certain irregularities in restructuring of loans have been observed in different categories of restructured loans such as agricultural loans, small borrowers and other category of borrowers in some public sector banks as under:

- i. in a few cases, restructuring was done without conducting any viability study with regard to various financial and business aspects.
- ii. deviation with regard to the appropriate sanctioning authority for second and subsequent restructuring, as stated in loan policy of bank, was observed in some cases (other than those involving Corporate Debt Restructuring),
- iii. repeated restructuring undertaken in certain cases.
- iv. confirmation of restructuring terms and conditions not obtained from some borrowers,
- v. restructuring with retrospective effect undertaken in some cases,
- vi. irregular upgradation of restructured accounts done in certain cases,
- vii. inconsistencies in deciding cut-off date for restructuring under CDR mechanism in some cases.

(c): While comprehensive prudential guidelines have already been issued by RBI vide circular dated August 7, 2008 and dated April 9, 2009 to banks for restructuring of loans, given to all category of borrowers except those which are restructured on account of natural calamities, it has taken up the issues of such irregularities with the banks for rectification.

Besides above, RBI in its Second Quarter Review of Monetary Policy 2011-12 (October 25, 2011) has proposed to constitute a Working Group to review the existing prudential guidelines on restructuring of advances by banks/financial institutions and suggest revisions taking into account the best international practices and accounting standards.