

**Guidelines for recovery of dues relating to
Non-Performing Assets (NPAs) of public
sector banks**

BP.BC.11/21.01.040/99-00

July 27, 2000
Shravana 5, 1922

Chairmen and Managing Directors
of all Public Sector Banks

Dear Sir,

**Guidelines for recovery of dues relating to
Non-Performing Assets (NPAs) of public
sector banks**

Please refer to our circular DBOD.BP.BC.57/21.01.040/99 dated May 27, 1999, setting out the guidelines for constitution of Settlement Advisory Committees (SACs) for compromise settlements of chronic NPAs of small sector.

2. A review of compromise settlements of NPAs through Settlement Advisory Committees (SACs) made by us has revealed that the progress of recovery of NPAs through this mechanism has not been encouraging. The recovery position in respect of categories of borrowers other than small sector has also not been satisfactory. Banks have represented to us that on account of the relative inflexibility of the parameters given in the aforesaid guidelines, much progress could not be made in the recovery of NPAs. While banks should take effective measures to strengthen the credit appraisal and post-credit monitoring to arrest the incidence of fresh NPAs, a more realistic approach is needed to reduce the stock of existing and chronic NPAs in all categories. It has therefore, been decided to modify the guidelines, which will provide a simplified, non-discretionary and non-discriminatory mechanism for recovery of the stock of NPAs. All public sector banks should uniformly implement these guidelines, so that maximum realisation of dues is achieved from the stock of NPAs within the stipulated time.

3. The revised guidelines will cover NPAs relating to all sectors including the small sector. The guidelines will not, however, cover cases of wilful default, fraud and

malfeasance. The banks should identify cases of wilful default, fraud and malfeasance and initiate prompt action against them. Accordingly, in modification of guidelines set out in our Circular of 27th May, 1999, revised guidelines for recovery of dues relating to NPAs of public sector banks in all sectors are given below :

(A) Guidelines for recovery of NPAs upto Rs. 5.00 crore

[i] Coverage

- a) The revised guidelines will cover all NPAs in all sectors irrespective of the nature of business, which have become **doubtful or loss** as on 31st March, 1997 with outstanding balance of Rs. 5.00 crore and below on the cut off date.
- b) The guidelines will also cover NPAs classified as **sub- standard** as on 31st March, 1997, which have subsequently become **doubtful or loss** category.
- c) These guidelines will also cover cases pending before Courts / DRTs / BIFR, subject to consent decree being obtained from the Courts/ DRTs/BIFR.
- d) Cases of wilful default, fraud and malfeasance will not be covered.
- e) The revised guidelines will remain operative only upto 31st March, 2001.

[ii] Settlement Formula – Amount and off date

a) NPAs classified as Doubtful or Loss as on 31st March, 1997.

The minimum amount that should be recovered under the revised guidelines in respect of compromise settlement of NPAs classified as **doubtful or loss** as on 31st March, 1997 would be 100% of the outstanding balance in the account as on the date of transfer to the protested bills account or the amount outstanding as on the date on which the account was categorised as doubtful NPAs, whichever happened earlier, as the case may be.

b) NPAs classified as Sub-standard as on 31st March, 1997 which became doubtful or loss subsequently

The minimum amount that should be recovered in respect of NPAs classified as **Sub-standard** as on 31st March, 1997 which became **doubtful or loss** subsequently would be 100% of the outstanding balance in the account as on the date of transfer to the protested bills account or the amount as on the date on which the account was categorised as

doubtful NPAs, whichever happened earlier, as the case may be, plus interest at existing Prime Lending Rate from 1st April, 1997 till the date of final payment.

[iii] Payment

The amount of settlement arrived at in both the above cases, should preferably be paid in one lump sum. In cases where the borrowers are unable to pay the entire amount in one lump sum, at least 25% of the amount of settlement should be paid upfront and the balance amount of 75% should be recovered in instalments within a period of one year together with interest at the existing Prime Lending Rate from the date of settlement upto the date of final payment.

[iv] Sanctioning Authority

The decision on the compromise settlement and consequent sanction of waiver or remission or write-off should be taken by the competent authority under the delegated powers.

[v] Non-discretionary Treatment

The banks should follow the above guidelines for compromise settlement of all NPAs covered under the revised scheme, without discrimination and a monthly report on the progress and details of settlements should be submitted by the concerned authority to the next higher authority and their Central Office. Banks should give notice by 31st August, 2000 to the eligible defaulting borrowers to avail of the opportunity for one time settlement of their outstanding dues in terms of these guidelines. Adequate publicity through various means to these guidelines must be ensured.

[vi] Reporting to the Board

The banks should submit a report on the progress in the recovery of NPAs under the revised guidelines every quarter to the Board of Directors. A copy of the quarterly progress report should also be sent to us.

**(B) Guidelines for Recovery of NPAs
over Rs. 5.00 crore**

[i] CMDs should personally supervise the NPAs of Rs. 5.00 crore and above on case to case basis. A list of such NPAs should be prepared and all cases reviewed by CMD

personally and the course of action decided in terms of rehabilitation / restructuring, one time settlement or filing of suits, by 31st August, 2000. The matter should be placed before the Board of Directors, finalising the course of action by 30th September, 2000 in each such case.

(ii) The Board of Directors may evolve policy guidelines regarding one time settlement of NPAs over Rs.5.00 crore covering the computation formula, realisable amount, cut off date and payment conditions with reference to factors of security and disposability, etc. as part of its loan recovery policy including setting up of Settlement Advisory Committee, staff accountability and other relevant aspects and decide individual cases in accordance with such policy. A copy of such policy should also be sent to us.

[iii] Wherever a suit is required to be filed against the defaulters, who have not come up for one time settlement, or where restructuring is not feasible, suits must be filed in all such cases by 31st October, 2000. Banks should follow up suit filed cases vigorously and effectively in the Courts to enable DRTs to decide the cases within 6 months as laid down in the DRT Act and realisation of dues completed at the earliest. A quarterly report in regard to outstanding of above Rs. 5.00 crore should also be sent to us.

4. Deviation only by Board of Directors

Any deviation from the above settlement guidelines for any borrower should be made only by the Board of Directors.

5. Please acknowledge receipt.

Yours faithfully

[A.Ghosh]
Chief General Manager –in –Charge.