RBI/2007-2008/152
DBOD.No.BP.BC.34 /21.04.048 /2007-08

October 4, 2007

All Commercial Banks (excluding RRBs)
All India Term Lending and Refinancing Institutions
All Non Banking Financial Companies (including RNBCs)

Dear Sir,

Guidelines on purchase/sale of Non Performing Assets

Please refer to our Circular No.DBOD.BP.BC.16/21.04.048/2005-06 dated 13 July 2005 on the captioned subject.

2. In terms of the above banks' Boards are required to lay down policies and guidelines covering among other things, valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayments and recovery prospects. However, it has come to notice that in some cases NPAs have been sold for much less than the value of available securities and no justification has been given.

3. Banks should, while selling NPAs, work out the net present value of the estimated cash flows associated with the realisable value of the available securities net of the cost of realisation. The sale price should generally not be lower than the net present value arrived at in the manner described above.

4. Same principle should be used in compromise settlements. As the payment of the compromise amount may be in instalments, the net present value of the settlement amount should be calculated and this amount should generally not be less than the net present value of the realisable value of securities.

Yours faithfully,

(Prashant Saran)
Chief General Manager-in-Charge