Inter-Creditor Agreement - Banks Resolution

Why in news?

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More than a dozen of lenders led by State Bank of India recently signed the inter-creditor agreement (ICA).

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What is the agreement on?

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- The agreement is part of the proposed Project Sashakt.
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- “Sashakt” plan is approved by the government to address the problem of resolving bad loans.
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- The objective is to use this ICA for faster facilitation of resolution of stressed assets.
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- It is aimed at the resolution of loan accounts with a size of Rs. 50 crore and above that are under the control of a group of lenders.
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How did it evolve?

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- Over the last few years, stressed assets resolution has been a challenge, despite RBI's consistent direction to banks.
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- A panel led by banker Sunil Mehta identified the disagreement among joint lenders as the biggest problem in resolution.
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- It recommended the bank-led resolution approach in the form of inter-creditor agreement.
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- This is an improvement on the earlier model of solely relying on the joint lenders' forum to arrive at a consensus.
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What are the provisions?

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- If 66% of the lenders agree to a resolution plan it would be binding on all lenders.
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- A 'dissenting creditor' is that which votes against or abstains from voting for the resolution plan approved by the committee.
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- A dissenting creditor could sell its loan at a discount of 15% of the liquidation value to other lenders.
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- Liquidation value is the amount at which a company could sell its assets and settle liabilities.
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- Another option is to sell their loans to any person at a price mutually arrived between dissenting lender and the buyer.
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- However, it cannot sell it to an asset reconstruction company.
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- The agreement has a standstill clause wherein all lenders are barred from enforcing any legal action against the borrower.
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- During standstill period, lenders are also barred from transferring or assigning their loan to any other person except a bank or finance company.
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What are the concerns?

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- The obligation on the lead lender to come up with a time-bound resolution plan can have unintended consequences.
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- Banks may be compelled to engage in a rush sale of stressed assets due to arbitrary deadlines.
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- This will work against the interests of lenders looking to get the best price for their stressed assets.
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- Besides, the biggest challenge to bad loan resolution is the absence of buyers to purchase stressed assets.
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- There is also the unwillingness of banks to sell their loans at a deep discount to their face value.
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Source: Economic Times, The Hindu

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