

RECOVERY OF NPL

NON-LEGAL APPROACH

Md. Jahirul Islam
Senior Principal Officer & Faculty
Rupali Bank Training Academy



NON PERFORMING LOAN

There is no standard or definition of NPLs

- A nonperforming loan (NPL) is a loan in which the borrower is in default due to the fact that they have not made the scheduled payments for a specified period.
- The Loan which generates interest but not credited directly to INCOME will be termed as Nonperforming Loan.
- A loan become non-performing if it is classified as Sub-standard, Doubtful and Bad & loss by BRPD circular 14/2012.



CAUSES OF NPL

From Banks point of view

- Higher interest rate
- Rigorous Loan Extension
- Limitation of Early Disbursement
- No Fixed Interest Rate
- Lack of Proper System



CAUSES OF NPL

From Banks point of view

- Lack of Monitoring
- Unqualified Bank Staff
- **Corruption in banks**
- Political Intervention in Bank
- Lack of Taking Proper Action



CAUSES OF NPL

From clients point of
view

- **Unwillingness to Pay**
- Lack or flexible Rearrangement of Installments Period & Size
- **Credit Collection Failure**
- **Fund Alteration**
- **Not having Early Production**
- **Lack of Financial Knowledge**
- **Lack of Supporting Services**
- **Low market share**



CAUSES OF NPL

From Business Related points

- **Non-Attractive industry**
- **Strong rivalry**
- **Weak Management skill of Business**
- **Poor economic Performance**



CAUSES OF NPL

Microeconomic point of views

- **Frequent Policy Change of government**
- **Political uncertainty**
- **Growing Crimes**
- **GDP growth**

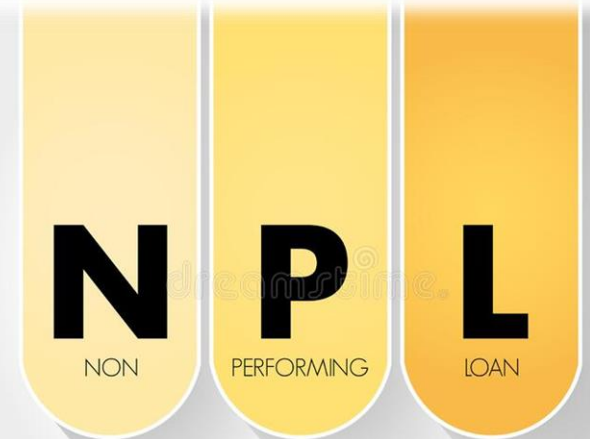
Microeconomics

Por: Patricia Gutiérrez García



EFFECTIVENESS OF NPL

- **Efficiency Problem for the Banking Sector**
- **Capital Erosion**
- **Credit Crisis situation**
- **Hinders Bank's Money Cycling**
- **Slow Flowing of Cash**
- **Increased Rate of Interest**
- **Opening of LC**
- **Affects**
- **Negative effects on More Lending**



STRATEGIES TO REDUCE NPL

General /Preventive Measure:

- Effective Monitoring, Supervision and Follow-up of Advances for checking fund diversion.
- **Early Warning Signal.**



STRATEGIES TO REDUCE NPL

- Making well-structured NPL management strategy:
- No compromise with the determined sanctioning process. Bank should always keep in mind that **"Prevention is better than cure."**
- Determine an identification of highly risk sensitive debtors in the credit portfolio.
- Quick action on credit reports in frequently basis.



STRATEGIES TO REDUCE NPL

- Capacity building of officers and executives by taking necessary step in the recovery section.
- Action plan for potential NPLs if there is any default.
- Determine an identification of geographical area-wise risk sensitivity
- Targeting high worth NPL accounts as soon as possible.
- Monitoring and Following up



STRATEGIES TO REDUCE NPL

- **Communication**
- **Persuasion**
- **Motivating Credit Collection Staff**
- **Recovery Campaign**
- **Alternative Dispute Resolution (ADR)**
- **Appointment of Recovery agent**
- **Debt Restructuring**
- **Corporate Restructuring of the Borrower's Business**



STRATEGIES TO REDUCE NPL

- **Preparation and Circulation of List of Defaulters.**
- **Waiver of Interest.**
- **Write off**
- **Corporate Restructuring including Bail out of Banks**
- **Asset Management Company**
- **Asset securitization**
- **Rescheduling With/Without Interest Waiving.**



STRATEGIES TO REDUCE NPL

Settlement outside the court

According to Money loan court Act

- **Section 22:** Mediator, Who can or can't?
- **Section 23:** Mediation in the stage pronouncement of the judgment.
- **Section 38:** Mediation at the execution stage.
- **Section 44A:** Mediation at the appellate or revision stage.
- **Section 25:** Special steps regarding suits of higher claims.



RESCHEDULING

- Rescheduling (also known as “Prolongation” or “ever greening”) means **fixing up a new repayment schedule for a default loan** where new loan replaces the outstanding balance on an older loan, and is paid over a longer period, usually with a lower installment amount.
- Rescheduling can mean either the changing of the time at which a planned event(s) will happen, as in the rescheduling of train departure times during a weather emergency or the renegotiating of the terms of a loan.



RESCHEDULING

Master Circular of Rescheduling: BRPD-16/2022, Dated 13/09/2022

- To consider loan Reschedule of non-performing loan.
- To be avoid the routine and repeat rescheduling.
- To be examine the cause as to why the loan has become Non-performing.
- Down payment should be give at a time in cash. For cheque, pay order process should be completed after collection.
- Bank should also consider ability, liability, Banks shall review the borrower's cash flow statement, audited balance sheet, income statement and other financial statements.
- **Rescheduling of any loan must be justified in written statement by the bank's Credit Committee.**



TIME LIMIT FOR RESCHEDULING CONTINUOUS LOAN

Frequency	Outstanding of Loans	Highest Time Period(With grace period)
First Rescheduling	$X < 50.00$ crore	5 Years
	$50.00 \leq X < 300.00$ crore	6 Years
	$300 \text{ crore} \leq X$	7 Years
Second Rescheduling	$X < 50.00$ crore	5 Years
	$50.00 \leq X < 300.00$ crore	6 Years
	$300 \text{ crore} \leq X$	7 Years
Third Rescheduling	$X < 50.00$ crore	4 Years
	$50.00 \leq X < 300.00$ crore	5 Years

TIME LIMIT FOR RESCHEDULING CONTINUOUS LOAN

Frequency	Outstanding of Loans	Highest Time Period(With grace period)
Third Rescheduling	$X < 50.00$ crore	4 Years
	$50.00 \leq X < 300.00$ crore	5 Years
	$300 \text{ crore} \leq X$	6 Years
Second Rescheduling	$X < 50.00$ crore	5 Years
	$50.00 \leq X < 300.00$ crore	6 Years
	$300 \text{ crore} \leq X$	7 Years

TIME LIMIT FOR RESCHEDULING CONTINUOUS LOAN

- During the rescheduled period all required principal and interest payments must be made.
- Rescheduled amount should be repaid in monthly installments.
- If the amount of defaulted installments is equal to the amount of 3(monthly) installments, the loan will be classified as Bad/Loss.



TIME LIMIT FOR RESCHEDULING DEMAND LOAN

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 12 (twelve) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 09 (nine) months from the date of rescheduling
Second Rescheduling	Maximum 09 (nine) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling
Third Rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling	Maximum 06 (six) months from the date of rescheduling

TIME LIMIT FOR RESCHEDULING DEMAND LOAN

- During the rescheduled period all required principal and interest payments must be made.
- Rescheduled amount should be repaid in monthly installments.
- If the amount of defaulted installments is equal to the amount of 3(monthly) installments, the loan will be classified as Bad/Loss.

Terms &
Conditions



TIME LIMIT FOR RESCHEDULING FIXED TERM LOAN

Frequency	Classified as Sub-standard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Maximum 36 (Thirty six) months from the date of res	Maximum 24 (Twenty four) months from the date of rescheduling	Maximum 24 (Twenty Four) months from the date of rescheduling
Second Rescheduling	Maximum 24 (Twenty four) months from the date of rescheduling	Maximum 18 (Eighteen) months from the date of rescheduling	Maximum 18 (Eighteen) months from the date of rescheduling
Third Rescheduling	Maximum 12 (Twelve) months from the date of rescheduling	Maximum 12(twelve) months from the date of rescheduling	Maximum 12 (twelve) months from the date of rescheduling

TIME LIMIT FOR RESCHEDULING FIXED TERM LOAN

- During the rescheduled period all required principal and interest payments must be made.
- Rescheduled amount should be repaid in **monthly/Quarterly** installments.
- If the amount of defaulted installments is equal to the amount of 6 monthly or 2 quarterly installments, the loan will be classified as Bad/Loss.(BRPD-06 , 29/05/2013)

Terms &
Conditions



TIME LIMIT FOR RESCHEDULING FOR SHORT TERM AGRICULTURAL AND MICRO CREDIT.

First Rescheduling	Repayment time limit for rescheduling should not exceed 2(Two) years.
Second Rescheduling	Maximum 1(One) year from the date of rescheduling.
Third Rescheduling	Maximum 6(Six) months from the date of rescheduling.

In case of rescheduling of any classified Short-term Agricultural and micro-Credit 6(Six) months **may be** added with the following time-limit from the day after the expiry date/payment date of the last installment to determine the repayment schedule which will be started from the date of rescheduling. If the loan is rescheduled after the expiry date the above time limit will be applicable. (BRPD-06 Date-29/05/2013)



DOWN PAYMENT

- a) If a borrower while applying for rescheduling, pays the required down payment in cash at a time.
- b) The bank must address the application within 03 (three) months upon receipt.
- c) If the borrower gives any cheque, pay order or any other instrument against down payment, the bank must ensure encashment of such instrument before processing of the rescheduling case.
- d) Any previous payment from time to time shall not be treated as a down payment.



DOWN PAYMENT OF TERM LOANS

- a) Application for first time rescheduling will be taken into consideration upon receiving cash payment of at least 15% of the overdue installments or 10% of the total outstanding amount of loan, whichever is less;
- b) Application for second time rescheduling will be considered upon receiving cash payment of minimum 30% of the overdue installments or 20% of the total outstanding amount of loan, whichever is less.
- c) Application for rescheduling third time will be considered upon receiving cash payment of minimum 50% of the overdue installments or 30% of the total outstanding amount of loan, whichever is less.
- d) The rate of down payments for Short-term Agricultural and Micro-Credit will be same as above.



DOWN PAYMENT OF DEMAND AND CONTINUOUS LOANS

- If a Demand or Continuous Loan is converted into a Term loan, first rescheduling may take place against down payment on the basis of loan amount in the following manner.

Amount of overdue loan	Rate of down payment
Up to Tk 1.00(one) Crore	15%
Above Tk.1.00(One) Crore and Up To Tk 5.00(Five) Crore	10% (but not Less Than Tk.15.00 Lac)
Above Tk. 5.00(Five) Crore	5% (but not less than Tk. 50.00 Lac)

DOWN PAYMENT OF DEMAND AND CONTINUOUS LOANS

- If any Continuous or Demand Loan is rescheduled **for the second time** (first time after being converted partly or wholly into Term Loan) and the repayment installments are fixed, the application for rescheduling of such loans shall be considered upon **receiving cash payment of minimum 30% of the overdue installments or 20% of the total outstanding amount of loan, whichever is less.** Similarly,
- For third rescheduling (second time after being converted partly or wholly into Term Loan) minimum 50% of the overdue installments or 30% of the total outstanding amount of loan, whichever is less, shall have to be repaid in cash.



CLASSIFICATION OF RESCHEDULE LOAN

- To be classified any categories according existing financial soundness and repayment capacity of the borrower.
- Interest not be credited to income.
- **Provision should kept as per classification.**
- classifications will be reviewed by Bangladesh Bank inspectors.
- A rescheduled loan will not be considered a "defaulted loan," and the borrower will not be considered a "defaulted borrower".



NEW LOAN FACILITY AFTER RESCHEDULING

- The borrower must pay at least 15% of the “Outstanding Balance” (outstanding amount after excluding the down payment on rescheduling) to avail any further credit facility.
- Exporters may be granted further credit facility (after being identified as not a willful defaulter), if required, subject to settling at least 7.5% of the “Outstanding Balance”.
- To allow regular facility from other Banks subject to the submission of a NOC from the rescheduling bank.
- Prior approval of Bangladesh Bank shall have to obtained if the loan is related to the director of any Bank.

SPECIAL CONDITIONS FOR LOAN RESCHEDULING

- If a loan account of an **export-oriented garments industry or knit garments factory** becomes **adversely classified due to stock lot**, the loan may be rescheduled without the required down payment.
- If a loan account of **fertilizer importers** become **adversely classified due to delay in government subsidy receipts and payment of subsidy bill**, the loan may be rescheduled without the required down payment.



EXTENSION THE TERM OF A TERM LOAN

- The loan must be performing (Unclassified: Standard or SMA).
- The decision should be made at the level where the loan was originally sanctioned.
- The maturity date may be extended by a period of time not exceeding 25% of the current remaining time to maturity.



RESTRUCTURING OF LOAN

- Loan restructuring is a **process in which borrowers facing financial distress renegotiate and modify the terms of the loan with the lender to avoid default.** It helps to maintain continuity in servicing the debt and gives borrowers a certain degree of flexibility to restore financial stability.
- **Large loan refers to any exposure to a single person/counterparty or a group which is equal to or greater than 10% of the capital.**



RESTRUCTURING OF LOAN

Loan eligible for consideration

- **AS PER BRPD-04 , DATED 29/01/2015**

- Large loan of

- ✓ A particular borrower or group in a bank singly or in clubbed together form
- ✓ Borrower having exposure in multiple banks may also approach by forming a consortium.
- ✓ Minimum outstanding Tk. 500 crore or above in aggregate.
- ✓ Should be considered for a particular account only once.



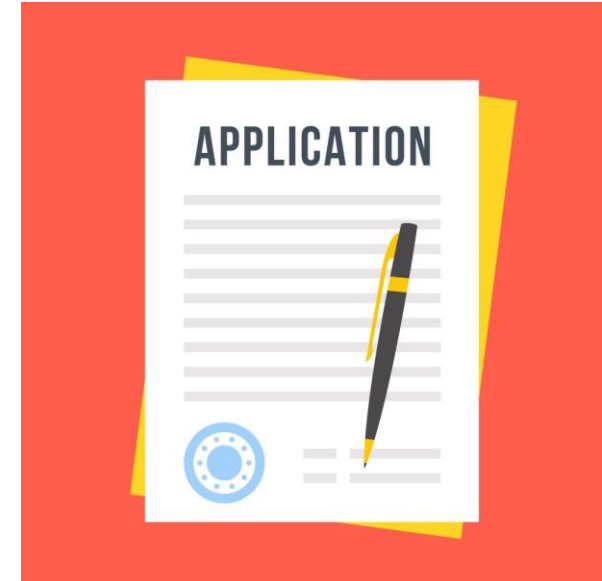
*Borrowers indulging in **frauds** and **forgeries** will not be eligible for loan restructuring.*

RESTRUCTURING OF LOAN

Application Procedure

SUPPORTING DOCUMENT /INFORMATION

- i. Grounds for restructuring including the business plan.
 - ii. Financial justification and cash flow Projection all duly certified by a C.A firm enlisted as category-A with B.B
 - iii. Viability Analysis in support of Restructuring.
 - iv. For Limited company Resolution of the Board of Directors in the form of a declaration.
- Upon receipt application bank should consider back ground, capacity, capability of the borrower.
 - Restructuring of any loan must be justified by Bank's credit committee.
 - Board should Approved the proposal in presence most of the directors.
 - An application duly signed by CEO and M D to be send BRPD for " No Objection."



RESTRUCTURING OF LOAN

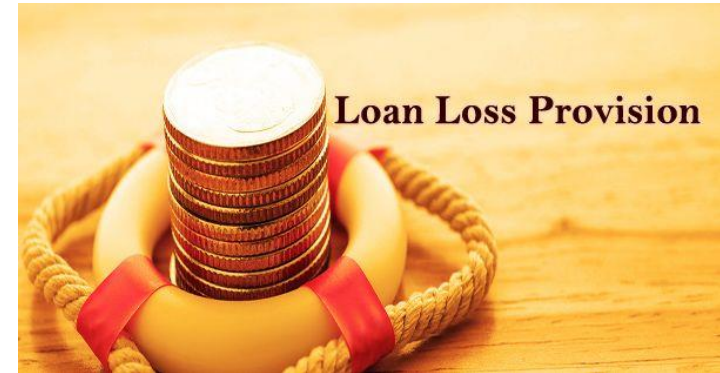
Term and condition

- a) **Tenure** :i) For fixed term loan maximum 12 years,
ii)For Continuous and Demand Loan maximum 6 years
- b) **Interest Rate**: Interest rate is changable considering it's outstanding but not less than cost of fund plus 01%.
- c) **Moratorium** : Maximum 12 months within the total tenure of the restructuring.
- d) **Down payment** : At least **02% of outstanding** for less than 1000 Crore and **01% for 1000 Crore** and above.
- e) **Installment**: Quarterly instalment with interest in moratorium period.
- f) **Liability Reduction** :Reduction of interest liability may be considered by the bank and adequacy of provision to absorb loss by the bank.
- g) **Default**: Failure to pay two (02) consecutive installments shall be considered as default and the restructured facility will stand cancelled.

RESTRUCTURING OF LOAN

Classification and provisioning

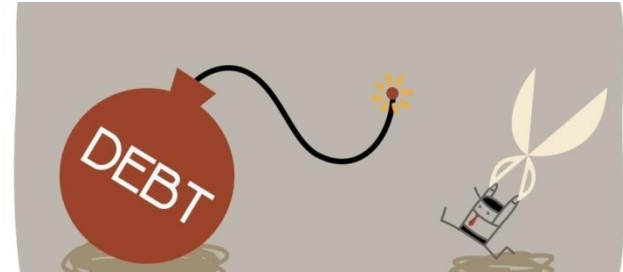
- a) Should be classified in SMA and Provisioning is applicable rate of SMA in addition 1%.
- b) Previous provision should be transfer to General provision if provision surplus against C. L.
- c) In case of default bank should filing suit under the Bankruptcy Act-1997.
- d) Income from restructured loan shall be accounted for only when it is actually received.



RESTRUCTURING OF LOAN

Collaterals

- a) The bank shall ensure obtaining of the following instruments/documents:
 - i. Charge documents covering the restructured loan amount.
 - ii. Corporate Guarantee from all the business concerns of the group.
 - iii. Personal Guarantee from all the directors/owner(s).
- a) In addition, bank shall try to enhance the level of physical collaterals to cover the restructured loan.



RESTRUCTURING OF LOAN

New Financing Facility

- *The borrower complies with all the terms and conditions of the restructuring and repayments of the installments are made in time:*
- a) Working capital financing may be allowed up to 50% of the last sanctioned limit during the first 03(three) years of the restructured tenure. After completion of such period, the working capital requirement issue may be decided on the basis of banker-customer relationship and need of the business.
- b) Term financing may be allowed up to 60% of the last sanctioned amount during the first 05 (five) years, if needed for up-gradation or replacement of the existing facility, subject to proper due diligence. After completion of such period, the fresh term financing may be allowed on the basis of banker-customer relationship.



RESTRUCTURING OF LOAN

Other Provisions

- a) Information on restructured loan shall be reported to the **Credit Information Bureau (CIB) of Bangladesh Bank as SMA (RST)** immediate upon restructuring become effective.
- b) Restructured loan will have to be **shown in the CL-5** (Loan classification reporting format).
- c) **Bank shall make full disclosure of the restructured loans in its published audited accounts in a separate note.**
- d) No cash dividend shall be declared or personal drawings shall be made by the borrower during the first 03 (three) years of the restructured tenure. After that the borrower shall obtain prior consent of the bank(s) before declaration of such cash dividend or drawings.

RESTRUCTURING OF LOAN

Monitoring

- a) Bank shall set up a *special cell headed by Head of Recovery* for continuous monitoring of the restructured loan and the cell shall **submit a quarterly report to the Board of Directors through Risk Management Committee of the Board**. This report must contain, among others, compliance progress of the restructuring terms and conditions.
- b) Board of Directors of the bank shall review such quarterly report and **forward the same along with its specific observations to the Department of Off-site Supervision of Bangladesh Bank through the CEO/MD of the bank**.



ONE TIME EXIT

BRPD CIRCULAR NO. 04, DATED: 16-05-2019

- বাবপঃডঃ ডঃ বাঁবপঃডঃ
 1. Trading- Wheat , Food Item, Edible Oil, Refinery
 2. Ship Industry-Ship Breaking and Ship Building
 3. Iron and Steel Industry , where Bank Has Huge Investment
- Industry Related with Export and Import sector in specialized bank.
- For Other's Sector: Loan of actual business man which has been become B/L out of his control.



ONE TIME EXIT

Condition for Rescheduling

- Down Payment is **2%** and previous deposit should not be consider as down payment.
- Payment schedule will be **10 years** with one year grace period case to case consideration.
- **Interest Waiver** :Unclaimed Interest and Interest Suspense A/C figure absolutely.
- **Waved Figure should transfer to Blocked A/C without Interest, after full payment it should be adjusted.**
- **Interest** : Cost of fund+3% on outstanding (waiver) but not exceed 9%.
- **Installment should be monthly or Quarterly.**
- **Monthly: 6 among 9 and quarterly: 2 among 3 the facilities should cancel and to be B/L.**
- Lawsuit should be stopped within 90 days complete solenama. If the facilities is cancel by breaking term and condition it will start again.
- New loan Facility can provided by banked-customer relationship if default in payment of **New Loan** all facilities should be canceled.

ONE TIME EXIT

- **State owned Commercial Bank and FIs** should confirm Cost of fund Recovery.
- All process should be completed within **45** days.
- **Other Instructions:**
- Classified into **SMA** and provision is **1%**.
- CIB Reporting **Special RSDL** for rescheduling and **Special Exit for** one Time Exit according to **BRPD-05/2019**.
- **Reporting in C.L -4**
- Actual recovery then interest should be credited into Income.
- **Up to 1.00 Crore – G.M Local office/ Divisional Office, up to 1 to 3 crore MD and CEO and above BOD.**



