

Agenda / Background Papers

BACKGROUND

The ongoing riots/ disturbances in the valley since July 8, 2016 continue to affect economic pursuits of all the business establishments badly. The business activities of all shops, commercial vehicle operators, Hotel Industry, industrial units and other business establishments have come to halt resulting in huge loss to the economy of the state. Since the unrest is still continuing, the business loss is expected to increase manifold. The planned journey of thousands of tourists and pilgrims has been cancelled thereby paralyzing and affecting the tourism industry. As a result the current peak business season in the state has been totally spoiled.

RBI GUIDELINES ON ROITS/ DISTURBANCE

RBI has issued detailed guidelines on extending relief/ rehabilitation to the borrowers affected by natural calamities. Clause 4.8 of the Master directions on these guidelines have been issued by RBI vide FIDD No FSD.BC.2/05.10.001/2016-17 dated July 1, 2016 which reads as under:

“a view needs to be taken by SLBC/DCC depending on the severity of the calamity as to whether a general reschedulement of all other loans, such as loans granted for allied activities and loans given to rural artisans, traders, micro/small industrial units or in case of extreme situations, medium enterprises is required. If such a decision is taken, while recovery of all the loans be postponed by the specified period, banks will have to assess the requirement of the individual borrowers in each such case and depending on the nature of his account, repayment capacity and the need for the fresh loans, appropriate decisions shall be taken by the individual banks”

CHAPTER-VII

Applicability of the RBI guidelines on Natural Calamities in case of riots and disturbances also:

Whenever RBI advises the banks to extend rehabilitation assistance to the riot/ disturbance affected persons, the aforesaid guidelines may broadly be followed by banks for the purpose. It should, however, be ensured that only genuine persons, duly identified by the State Administration as having been affected by the riots/ disturbances, are provided assistance as per the guidelines. (Clause 7.1)

The issuance of advice to the banks by Reserve Bank of India on receipt of request/ information from State Government and thereafter issue of instructions by banks to their branches generally results in delay in extending the assistance to riot affected people. With a view to ensuring quick relief to the affected persons, it has been decided that the District Collector, on occurrence of the riots/ disturbances, may ask the Lead Bank Officer to convene a meeting of the DCC, if necessary and submit a report to the DCC on the extent of damage caused to life and property in the area affected by riots/disturbances. If the DCC is satisfied that there has been extensive loss to life and property on account of the riots/ disturbances, the relief as per the above guidelines may be extended to the people affected by the riots/ disturbances. In certain cases, where there are no District Consultative Committees, the District Collector may request the convener of the State Level Bankers' Committee of the State to convene a meeting of the bankers to consider extension of relief to the affected persons. The report submitted by the Collector and the decision thereon of DCC/ SLBC may be recorded and should form a part of the minutes of the meeting. A copy of the proceedings of the meeting may be forwarded to the concerned Regional Office of the Reserve Bank of India. (Clause 7.2)

The RBI guidelines further provide following measures to mitigate the sufferings caused due to the riots/ disturbances:

Asset Classification

The asset classification status of these loans will be as under:

a. The restructured portion of the short term as well as long-term loans may be treated as current dues and need not be classified as NPA. The asset classification of these term loans would thereafter be governed by the revised terms and conditions. Nevertheless, banks are required to make higher provisions for such restructured standard advances as prescribed by Department of Banking Regulation from time to time.

b. The asset classification of the remaining amount due, which have not been restructured, will continue to be governed by the original terms and conditions. Consequently, the dues from the borrower shall be classified by the lending bank under different asset classification categories viz. standard, sub-standard, doubtful and loss.

c. Additional finance, if any, shall be treated as “standard asset” and its future asset classification will be governed by the terms and conditions of its sanction. (Clause 4.10)

With the objective to ensure that banks are sufficiently proactive in extending the relief to the affected persons, the benefit of asset classification of the restructured accounts as on the date of natural calamity will be available only if the restructuring is completed within a period of three months from the date of natural calamity. In the event of extreme calamity, when the SLBC/DCC is of the view that this period will not be sufficient for the banking sector to reschedule all the loans, they should immediately approach RBI (concerned Regional Office) giving the reasons for seeking extension. These requests will be considered on the basis of merit of each case. (Clause 4.11)

The situation seems graver in nature as compared to the unrest that hit the valley during 2010. Under these circumstances the repaying capacity of the people affected by the continuous lockdown and disturbances is bound to get severely impaired, as such, relief in repayment of loans becomes necessary in areas affected by the disturbances and hence, restructuring of the existing loans will be required

The feedback received from some major banks operating in the State to deal with the situation is summarized below:

J&K Bank:

- **Working Capital Facilities:**-Funding of interest in working capital accounts by way of creation of WCTL for a period of 09 months w.e.f. 01.07.2016.
- Moratorium of 09 months w.e.f. 01.07.2016 in respect of payment of installments of WCTL so created.
- Servicing of interest in respect of working capital accounts and payment of installment in WCTL to start from 01.04.2017
- **Term Loans** will be provided moratorium in the payment of installment and interest for a period of 9 months w.e.f. 01.07.2016 thereby extending tenor of loan by 9 months.
- **The NFB facility** (LC/BG) which has/ will be devolved or invoked during the period from 01.07.2016 to 31.12.2016 shall be converted into WCTL (in case DP is not available in the regular limit). WCTL so converted shall have moratorium period up to 31.03.2017 both in respect of repayment of principal and interest.
- **Agricultural Loans** falling due during the FY 2016-17 shall be given moratorium of one year in respect of payment of interest and principal i.e., interest falling due in September 2016 and march 2017 shall get shifted by one year and will accordingly fall due in September 2017 and march 2018 respectively. Further repayment of principal will also get shifted by one year.

State Bank of India:

1. The position of NPAs as on June 2016 be maintained as the level of NPA.
2. Two years immunity to all such loans accounts be given to enable the borrowers to stabilize and establish comfortably.
3. Since the off Take of credit is negligible, therefore, the ACP targets be reduced by about 50%.
4. Relief in the interest rates by 1% to 2% be given in effected segment of advances.

Punjab National Bank

For Term Loan borrowers:

- Extending moratorium in repayment of 12 months on all Term Loans to individual and business establishments other than loans under Retail segment.
- Restructuring of loans existing as on 30.06.2016 by providing them extra period for repayment, where the loans were under standard category as on 30.06.2016.
- Providing interest subvention for the period during which the business establishments remain closed.

For Cash Credit Borrowers:

- On the request of borrowers, a part of cash credit limits may be converted into WCTL, repayable in a period of 24 months.
- Providing interest subvention for the period during which the business establishments remained closed.
- Relaxation of time provided for submission of papers for renewal/ review of accounts & assets classification norms of RBI in this regard may be relaxed.

J&K Grameen Bank:

- In order to provide immediate relief to the affected traders, adhoc working capital facilities may be granted over and above the regular credit facilities;
- Funding of interest in respect of cash credit/ SOD/ Crop loans by creating a separate account of FITL which can be repaid in period of two years with a moratorium period of 3 months. The Govt. may provide for interest relief to the affected borrowers.
- To extend the limitation period of documents expiring/ likely to expire from 1.7.2016.

However, taking into account the suggestions/ feedback received from J&K Bank and all other major banks, the special rehabilitation/ revival package based on the RBI Master Directions as referred to above, as mentioned below, is proposed to be implemented for all affected borrowers identified by the Banks.

**PROPOSED REHABILITATION PACKAGE TO BORROWERS HIT BY RIOTS/
DISTURBANCE.**

Eligible Areas/ districts	As notified by Govt of J&K
Eligible Borrowers	Borrowers affected (directly or indirectly) by Riots/ Disturbance of 2016.
Eligible Credit facilities	Outstanding standard Credit facilities as on 30.06.2016

1. Working Capitals

Conversion of interest into WCTL

There will be moratorium for the payment of interest in working capital loans for a period of 09 months w.e.f.01.07.2016. The interest charged in the accounts from 01.07.2016 for a maximum period of 09 months shall be converted into WCTL.

View on existing & Fresh Ad-hoc credit facilities falling due for adjustment during the period 01.07.2016 to 31.12.2016 shall be taken on case to case basis which may include extension in period of adjustment or conversion into WCTL.

a) Moratorium:

WCTL so converted during the period of 9 months shall have moratorium period up to 31.03.2017 both in respect of repayment of principal and interest. Interest applicable during the moratorium period on WCTL for a period of 9 months from 01.07.2016 shall be capitalized and form part of the overall limit of WCTL.

b) Repayment:

Repayment for WCTL shall commence after expiry of moratorium period. BOS at the end of moratorium period shall be repaid in 24 equated monthly installments with 1st installment falling due immediately in the succeeding month in which moratorium period has expired.

c) Rate of Interest for WCTL:

Rate of Interest on WCTL shall be 1% below the rate being charged to the existing WC facility subject to the condition that the rate shall not be below 1 Year MCLR.

d) Security

WCTL so created shall be secured by way of charge on existing securities (Primary and collateral) and no additional collateral security shall be insisted upon. However, banks shall have option to explore possibility of taking additional collateral to cover the exposure on case to case basis.

2. Agriculture Loans (Short Term Crop Loans)

Affected short term crop loans falling due during the FY 2016-17 shall be given moratorium of one year in respect of payment of interest and principal i.e., interest falling due in September 2016 and march 2017 shall get shifted by one year and will accordingly fall due in September 2017 and march 2018 respectively. Further repayment of principal will also get shifted by one year.

3. NFB Devolvement/ invocation

The NFB facility (LC/BG) which has/ will be devolved or invoked during the period from 01.07.2016 to 31.12.2016 shall be converted into WCTL (in case DP is not available in the

regular limit). The amount devolved shall form part of WCTL if created under provision of point no. 1 above. In other cases fresh WCTL shall be created. Terms and condition of WCTL shall be same as mentioned under point no. 1 above

4. Term Loans:-

a. Rescheduling of Term Loans:-

The existing term loans including existing WCTLs and Converted Term Loans (CTL) will be provided moratorium in the payment of installment and interest for a period of 9 months w.e.f. 01.07.2016 thereby extending tenor of loan by 9 months. Under this arrangement the default installments/ interest of earlier period (period before 01.07.2016) will not be eligible for rescheduling and shall be recovered before implementing the package.

The interest charged in the term loans during moratorium period will be capitalized and form part of overall term loan limit. The installments will be accordingly re-fixed depending upon the BOS at end of moratorium period for entire BOS considering remaining tenor of loan including the extended period of 9 months.

{This will also include Agriculture Loans- Long term (Investment) credit}

b. Security:-

All exiting term loan facilities including restructured loans shall continue to be secured against existing securities (Primary and collateral) and no additional collateral security shall be insisted upon. However, bank shall have option to explore possibility of taking additional collateral to cover the exposure on case to case basis.

5. Account under moratorium

In case of existing accounts which are under moratorium period in respect of payment of interest and/ or installment and moratorium is expiring within the period of 30.06.2016 to 31.03.2017 shall be eligible for extension in moratorium period under the package subject to the condition that fresh moratorium period does not exceed 9 months from the date of expiry of original moratorium period.

The interest charged for the extended moratorium period will be capitalized and form part of overall term loan limit. The installments will be accordingly re-fixed depending upon the BOS at the end of moratorium period considering stipulated repayment period of loan including the extended period.

6. Treatment to Subsidy/ Grants/ reliefs to be received from the Government.

Grants/subsidy etc. received from the Govt. or any agency shall be credited to WCTL and restructured loans.

7. Personal loan to employees of State/ Central/ Semi Govt/ autonomous bodies shall not be eligible for rehabilitation under this package.

8. Special Dispensation required from RBI

As per RBI guidelines, with the objective to ensure that bank is sufficiently proactive in extending the relief to the affected persons, the benefit of asset classification of the restructured accounts as on the date of natural calamity (riot/ disturbances) will be available only if the restructuring is completed within a period of three months from the date of natural calamity (riot/ disturbances).

The turmoil in the valley started in July and is still continuing which has affected business activity at large and as a result major chunk of working capital accounts are having nil transactions. As such, time available for implementing the package within the regulatory time period may not be sufficient. Keeping in view the present situation, we may approach RBI for extending following dispensation in this regard:

- (i) Implementation period for extending restructuring under the package shall be 6 months from the date of approval received from RBI.
- (ii) The asset classification status prevalent as on 30.06.2016 may be allowed to be retained till implementation of package within the time line proposed under point No. (i) above.

Even though riots/ disturbances have erupted and are continuing in the Kashmir region only, but due to interdependence of economic activities among various regions of J&K State, other parts of State viz., Jammu & Ladakh have also been indirectly affected by these riots/ disturbances, thus causing huge economic loss to the business community of these regions also. In this regard Federation of Industries, Jammu have also represented for extending relief to the business establishments of Jammu region as well.

Although under the above referred to RBI Master Guidelines (**Chapter-VII**) it has been provided that in the event of riots/ disturbances the District Collector, may ask the Lead Bank Officer to convene a meeting of the DCC, if necessary and submit a report to the DCC on the extent of damage caused to life and property in the area affected by riots/disturbances.

Under the prevailing conditions when the lockdown / curfew continues in the entire Kashmir division, it would not be possible for the LDMs to convene meetings of DCCs in their respective districts to discuss the issue and workout the extent of damages/ loss due to the turmoil, extension of relief to the affected persons and submit a report to RBI. Therefore, it was deemed expedient to convene the Special Session of the J&K SLBC to discuss the issue and seek necessary intervention of State Government to **declare all the 22 districts of J&K State as riot/ disturbance hit, so that relief package under RBI guidelines can be extended to all the borrowers affected (directly/ indirectly) in the State.**

The House is requested to deliberate and approve the proposed package so that the necessary recommendations are made to Reserve Bank of India for sanction of special dispensation.