Regulatory directives for Securitisation and Reconstruction of Financial Assets

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Securitisation of Bank Loans

- Minimum holding period for Banks raised from 3 months to 12 months and minimum retention requirement raised from 5% to 10%

- Total retained exposure with credit enhancement cannot exceed 20%

- Any interest payable by SPV on transferred assets cannot be accounted in P&L until it is actually realised.
- Banks to follow up performance information and monitor repayment and overdue position accountwise.
- Asset classification & provisioning to be made accountwise by purchasing banks even for retail loan.

Asset Reconstruction
(Sale of NPAs to SC/RCs – ARCs)

- Massive sale of assets to ARCs in the last financial year (Rs.45000 Crores assets sold).

- Assets were required on 5% cash and 95% security receipt with management fee @ 2% per annum.

- Sale linked to total claim of the Banks and not based on net asset values.

Revised regulatory directives for ARCs

- 5% minimum stake of ARCs raised to 15%
- Planning period for reconstruction/recovery reduced from 12 months to 6 months
- Management fees to be linked to NAV specified by Credit Rating agency

Other directives

- SMA-2 accounts can be transferred to ARCs
- ARCs can become members of JLF
- New directives to be applicable from 5^{th} August, 2014