

Defaulters at will, and defaulters of size: RBI issues new Directions

Middle and Upper Layer NBFCs also part of the system

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Based on Directions dated 30th July: This version updated on July 31, 2024

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Introduction

Background

The Reserve Bank of India on July 30, 2024 issued the [Master Directions on Treatment of Wilful Defaulters and Large Defaulters](#) ('Directions'). The Directions will replace the existing Master circulars (referred below). The Directions are largely consolidating in nature, with some significant differences. Importantly, NBFCs of middle and upper layer have been brought into the framework, and additionally, as was clear from the [recent circular on compromise/settlements](#), the tag of wilful defaulter may be removed if the borrower does a compromise settlement with the lender. However, a mere sale of the loan will not cause removal of the tag, as the tag will pass on to the buyer. The Directions also assimilate the provisions about large defaulters, which was [earlier a CIC filing requirement](#), and make it a part of these Directions.

While a default itself is bad for a lender, where the default is backed by ability, but unwillingness to pay, it assumes a different level of seriousness. Such a borrower, and the entities that such borrower promotes or fosters, should remain deprived of further assistance from the financial system.

Note that fraudulent defaulters are even a further level of seriousness, as fraud is clearly a criminal offense. A fraudulent borrower is also a Wilful Defaulter, but vice versa need not be true. Fraudulent defaulters are covered by [Master Directions on Frauds](#).

The concept of Wilful Defaulter can be traced back to 1999 when it introduced a scheme to address Wilful Defaulters. Before this new Directions, the [Master Circular dated July 01, 2015](#) ('Previous Circular') was the governing framework for classifying an account as Wilful Defaulter.

The position on wilful defaulters before issuance of this Directions was as follows:

- Banks were to identify borrowers as wilful defaulter in accordance with the [Master Circular on Wilful Defaulters](#)
- AIFIs were also required to follow the [Master Circular on Wilful Defaulters](#) for identification of wilful defaulters
- HFCs were required to identify and report wilful defaulters as per [Annex XVII Guidelines on Wilful Defaulters](#) under the HFC Master Directions
- NBFCs were not covered under the aforesaid Master Circular and hence, could not classify borrowers as wilful defaulters

Each of the above, as also ARCs, have now been brought under a unified Direction.

Applicability of Directions

The Directions apply after 90 days from the date of publication (30th July): accordingly, the Directions will be applicable from 28th October, 2024. There are several actionable before that date - which we are listing separately below.

Given that Middle Layer and Upper Layer NBFCs are covered by the Directions. The applicability of the Directions on NBFCs may be understood by the following:

Particulars	Upper and Middle layer	Base Layer
The ability to declare a borrower as Wilful Defaulter	Yes	No
The obligation to identify a Wilful Default, have a review and reporting process	Yes	No
The obligation to refrain from taking any new or additional exposure on a Wilful Defaulter, or associated entities	Yes	Yes
Reporting and dissemination of credit information of large defaulters	Yes	Yes

Wilful Defaulter declaration is serious business

There have been various instances in rulings that highlight the banks' casual conduct in designating borrowers as 'willful' and 'fraudulent'. These include not providing the borrower with supporting documents, not making reasoned orders, and at times not even communicating their decisions to the borrower. In the matter of *State Bank of India Vs. Jah Developers Private Limited and Others* ([2019] 6 SCC 787), the Supreme Court highlighted the need for the due process to be followed; in *Kanchan Motors and Others Vs. Bank of India & Ors.* (2018 SCC OnLine Bom 1761) the need for clarity in the SCN and the importance of providing reasoned orders was emphasized; the fact that the penal measures being quite substantial and severe, the principles of natural justice and fair play with recorded reasons would be imperative was discussed in the matter of *Narendra Seomal Sabnani & Others Vs. State Bank of India & Others* (2021 SCC OnLine Bom.4604). (Read more about 'Implications of being labeled as wilful defaulter' in our article [here](#))

In March 2024 case of [Milind Patel Vs. Union Bank of India](#), the Bombay High Court has again highlighted the need for prudence and due process to be followed for the classification of a borrower as a 'wilful defaulter'. The Order has emphasized the following:

1. Banks and financial institutions that seek to invoke the Master Circular and or Directions to declare the occurrence of wilful default, must identify the members of the Identification Committee and the members of the Review Committee, and share the reasoned orders passed by such committees.
2. The borrower must be allowed to be heard before passing any order to declare the borrower as a 'wilful defaulter'. Banks and FIs must establish a transparent mechanism for the entire process. This will prevent the misuse of penal provisions and ensure that discretionary powers are kept to

a minimum. It should also be ensured that a solitary or isolated instance is not made the basis for imposing the penal action.

3. Not only must information that is referred to and relied upon by the lender be supplied but also information that may undermine the allegations contained in the SCN must be supplied – only to ensure that everything relevant to arrive at the truth is available to both parties. There should be fair and transparent symmetrical access to information since all such information would be relevant for arriving at the truth. Access to the record is essential to uphold the principles of natural justice, as held by the Supreme Court in the matter of *T.Takano Vs Securities and Exchange Board of India & Anr. [(2022) 8 SCC 162]*.
4. RBI must ensure that banks wield their conferred discretion responsibly and in compliance with its guidelines, particularly regarding transparency.

Delving into the Directions

Wilful defaulter: Meaning

A new criterion is added to the definition of a Willful Defaulter. This criterion specifies that a failure to infuse committed equity, even when the borrower or promoter has sufficient resources, after the lender has provided finance or concessions based on this commitment, will be classified as a willful default.. Additionally, the definition includes guarantors who, despite being able to meet guarantee obligations, do not do so. This part is there in the existing Master Circular as well.

Notably, even where the principal debtor is not a Wilful Defaulter, a guarantor, upon invocation of the guarantee, failing to pay while being able to pay, will still be construed to be a Wilful Defaulter. That is to say, it is not that only guarantors for Wilful Defaulters are willful defaulters themselves.

Earlier Definition	New Definition	Remarks
<p><i>Wilful Default: A 'wilful default' would be deemed to have occurred if any of the following events is noted:</i></p> <p>(a) <i>The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.</i></p> <p>(b) <i>The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from</i></p>	<p><i>"Wilful Default"</i></p> <p><i>(i) by a borrower shall be deemed to have occurred when the borrower defaults in meeting payment/ repayment obligations to the lender and any one or more of the following features are noticed:</i></p> <p>A. <i>the borrower has the capacity to honour the said obligations;</i></p> <p>B. <i>the borrower has diverted the funds availed under the credit facility from lender;</i></p> <p>C. <i>the borrower has</i></p>	<p>The scope of the term Wilful Default has been widened so as to include circumstances wherein the borrower or promoter has defaulted in its commitment to infuse equity despite having the ability to infuse equity. This particular circumstance is understood to be drawn towards promoter driven funding wherein commitment of infusing equity is quite common.</p> <p>Additionally, a guarantor may be classified as a wilful</p>

<p><i>the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.</i></p> <p><i>(c) The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.</i></p> <p><i>(d) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank / lender.</i></p>	<p><i>siphoned off the funds availed under the credit facility from lender;</i></p> <p><i>D. the borrower has disposed of immovable or movable assets given for the purpose of securing the credit facility without the approval of the lender;</i></p> <p><i>E. The borrower or the promoter has failed in its commitment to the lender to infuse equity despite having the ability to infuse the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment and other covenants and conditions;</i></p> <p><i>(ii) by a guarantor shall be deemed to have occurred if the guarantor does not honour the guarantee when invoked by the lender, despite having sufficient means to make payment of the dues or has disposed of immovable or movable assets provided for the purpose of securing the credit facility, without the approval of the lender or has failed in commitment to the lender to infuse equity despite having the ability to infuse the equity, although the lender has provided loans or certain concessions to the borrower based on this commitment.</i></p>	<p>defaulter if they dispose of immovable or movable assets pledged as security for the credit facility without the lender's approval, or if they fail to meet their commitment to infuse equity despite having the means to do so where the lender has provided loans or certain concessions to the borrower based on this commitment.</p>
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Actionables for the NBFCs

Before these Directions become applicable, the NBFCs shall be required to take the following steps:

- Place the Directions in the next Board Meeting to determine the list of actionables and timelines
- Formulate and adopt a board- approved policy on wilful default, including
- Constituting an Identification Committee, Review Committee, etc. for the process of declaration
- Internal audit system to be developed so as to specifically look into adherence to instructions for classifying a borrower as a Wilful Defaulter.
- Amendment to the loan agreement
 - Inclusion of a covenant in lending to all corporate borrowers that the corporate shall not induct on its board or as a person in charge and responsible for the management of the affairs of the entity a person whose name appears in the list of Wilful Defaulter
 - Incorporate a covenant in all cases for certification by auditors with regard to the diversion/siphoning of funds

Post the applicability, the major obligations of NBFCs include:

- Identification of an account with outstanding amount of ₹25 lakh and above as to whether it may fall into the category of Wilful Defaulter
- Post declaration, appropriate filing with Credit Information Companies(CICs)
- Internal audit system to be developed so as to specifically look into adherence to instructions for classifying a borrower as a Wilful Defaulter.
- Review of status of Wilful Defaulters by the audit committee and to recommend steps to be taken to prevent occurrence. The review shall focus on identifying root causes of wilful default and addressing deficiencies, if any, in the wilful defaulter classification process adopted by the NBFC
- To complete the investigation from a Wilful Default angle in every case before transferring a defaulted loan with outstanding of ₹25 lakh and above, irrespective of its classification as NPA
- Reporting of Wilful Defaulters in the List of Wilful Defaulters with CICs before transferring the credit facility
- Reporting of auditors with National Financial Reporting Authority/ Institute of Chartered Accountants of India in cases they are found to be negligent or deficient in conducting the audit.
- Reporting the details of third parties to Indian Banks Association in cases where they are found to be negligent or deficient in their work.

Board approved policy for Wilful Defaulters

The Directions mandate the Lender to have a non discriminatory board approved policy *inter alia* providing for the following aspects:

- Transparent mechanism for identification of Wilful Defaulters
- Criteria of publishing photographs of persons classified as Wilful Defaulter;
- Terms of the compromise and settlement to be executed with the Wilful Defaulter;
 - guidelines on staff accountability examination, reporting of the compromise/ settlement to the board, higher upfront payment if any, etc.
- Threshold for commissioning a forensic audit against Wilful Defaulter;
- Determination of the periodicity for review of the willful defaulter status, if not found at Wilful Defaulter during the first examination

- Guidelines for nominating authorized officers who would issue show cause notice on behalf of the Identification and Review Committee.

Role of the Identification Committee (IC) and Review Committee (RC)

The IC serves as the initial evaluative body in the process of identifying wilful defaulters. Its role is focused on the preliminary examination of evidence such as financial statements and security cover to detect signs of wilful default. This committee is responsible for issuing a show cause notice to the borrower and other relevant parties, allowing them time to respond. The IC then drafts a proposal on whether the borrower should be classified as a wilful defaulter, based on its findings and the submissions received.

In contrast, the RC acts as the secondary evaluative body that assesses the proposal forwarded by the IC. Its function is to review the detailed proposal, including any written representations and possibly conduct personal hearings. The RC's responsibility is to make a final, reasoned decision on whether the borrower should be officially classified as a wilful defaulter. It ensures a comprehensive evaluation of all submitted evidence and representations before issuing a final determination. If the IC does not classify the borrower as a wilful defaulter, the case does not proceed to the RC

Further, the IC is an executive level committee while the RC is required to be constituted at the Board level. A brief comparison of the two is as follows:

Criteria	Identification Committee	Review Committee
Task	Fact-finding. To consider the evidence from the borrower's financials or otherwise as to whether the indications of Wilful Default exist. To consider the borrower's response, and escalate the matter, if thought appropriate, to the Review Committee	To review the findings of the Identification Committee, borrower's response, give opportunity of hearing to the borrower, and carefully, and with reasoning, give its ultimate decision on tagging the borrower as wilful
Seniority	Shally consist of an officer not more than one rank below the MD/ CEO as chairperson and two senior officials, not more than two ranks below the chairperson of the committee, as members	Shallconsist of the MD/ CEO as chairperson with two independent directors or non-executive directors or equivalent officials serving as members. Further the members of Identification Committee shall not be a member of the Review Committee

Multiplicity	May be more than one	Seems like a central committee
Finality of decision	Internal committee; decisions are subject to review by the Review Committee	Final, as far as the lender is concerned.

Review of loan accounts for classification as a wilful defaulter: Option or Obligation?

It is important to highlight that the tagging of a person as a Wilful Defaulter is not merely for the purpose of casting pressure on the borrower; it is also for the purpose of saving the financial system from being hurt by a person who is not a defaulter by chance, but defaulter by design.

It is pertinent to note that *para 4(1)* Directions state that “A lender shall identify and classify a person as a ‘wilful defaulter’ by following the procedure enumerated in these Directions” Therefore, NBFCs covered as “lenders” under the Directions, are not mandatorily required to classify a borrower as a Wilful Defaulter, however when a borrower is classified as wilful defaulter, the procedure shall be adhered to as specified in the Directions.

So ideally the NBFC will have to review a loan account with an outstanding amount more than ₹25 lakh for identification as wilful defaulter at two instances specifically:

- A. At the time of default
- B. At the time of NPA classification

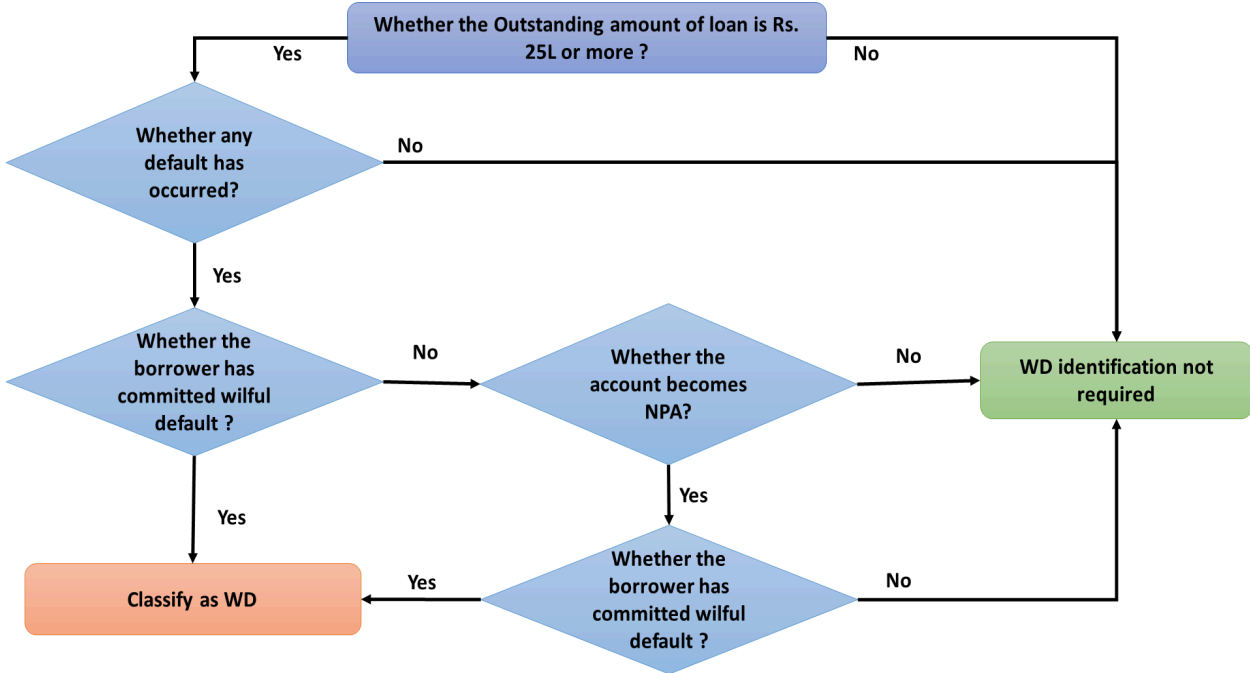


Fig 1: Classification of Wilful Defaulter (WD)

Process of classification and declaration of Wilful Defaulter

As in case of the erstwhile Master Circular, the Directions also provide for the size of current outstanding for a Wilful Defaulter to be Rs 25 lacs or above.

Thus, if it is an NPA with a current outstanding of Rs 25 lacs or above, the lender should do a check on whether the borrower is a Wilful Defaulter. The entire process shall be completed within a period of 6 months from the date of the accounting turning into an NPA, which translates into a maximum time period of 9 months from the date of first default by the borrower.

The various steps in the process are as follows:

- Examination of Evidence by Identification Committee
 - Recovery team or similar teams to examine the borrower's financial statements, security cover, etc to detect any indications of Wilful Default, and to place the same before the Identification Committee.
 - Identification Committee to consider the same and it shall send notice
- Issuing of Show Cause Notice to borrower/ guarantor/ promoter/ director/ persons who are in charge and responsible for the management of the affairs of the entity
 - Borrowers shall be given at least 21 days for making their submissions
- Consideration of the Submissions from the borrower
- Post Consideration, the Identification Committee shall make a proposal for classification of Wilful Defaulter to the Review Committee with reasons in writing. Simultaneously, this proposal shall also be communicated to the guarantor/ promoter/ director/ persons who are responsible for managing the affairs of the said entity and an opportunity shall be provided to submit a written representation within 15 days to the Review Committee. The Review Committee shall consider the findings of the Identification Committee and written representation, Representation and personal hearing of the borrower. The borrower/ guarantor/ promoter/ director/ persons in charge and responsible for the management of affairs shall not have the right to be represented by a lawyer.
- Reasoned decision of Review Committee
- Once established, the lenders shall report such Wilful Defaulters at monthly intervals in Annex II to all CICs.
- Where Identification Committee concludes that the borrower do not classify for qualification as wilful defaulter such cases may not be referred to Review Committee.

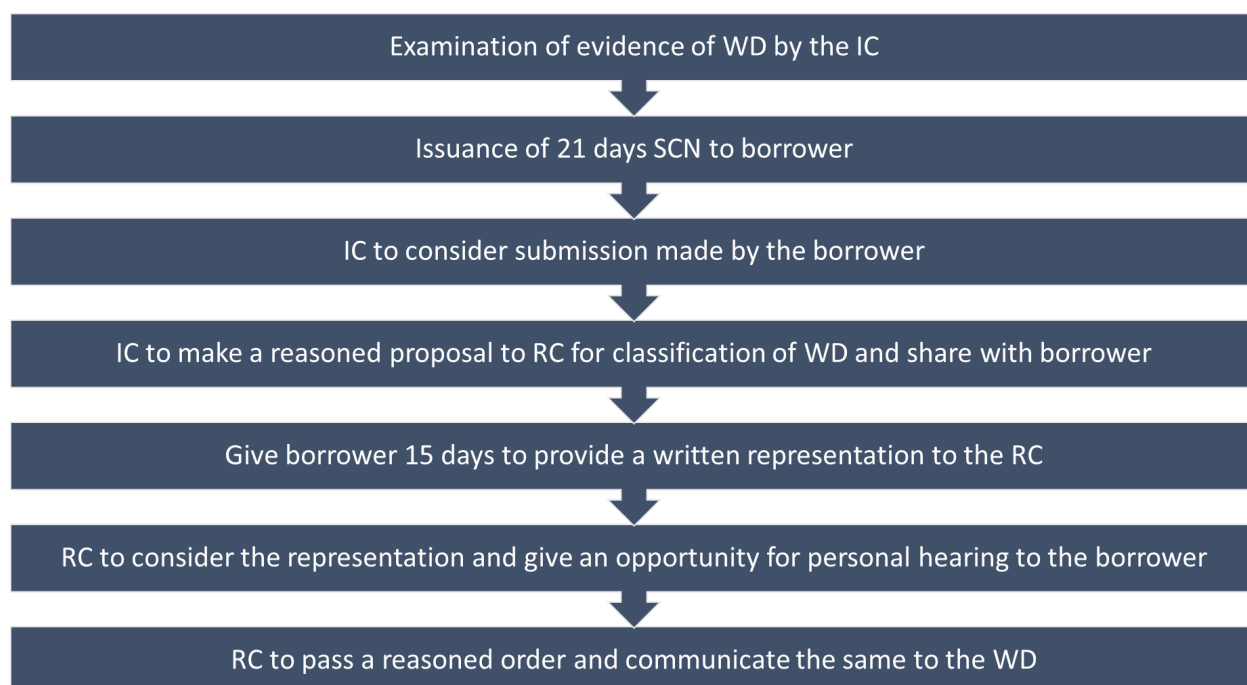


Fig 2: Process of classifying a Wilful Defaulter (WD)

Large Defaulters

Large defaulters were earlier covered by reporting requirements vide [Notification dated June 27, 2014](#). Now, these defaulters are to be covered by these Directions.

Classification of a borrower as a large defaulter:

- Is not affected by classification as wilful. That is, even if not wilful, a large defaulter is still a large defaulter if the other conditions are satisfied.
- While a Wilful Defaulter faces a bar on raising finance, etc., there is no similar bar on a large defaulter.
- Large defaulter is based on two conditions:
 - Size of the default: Outstanding amount of Rs 1 crore and above
 - Vintage of the default/Suit status: Should have been classified as doubtful or loss by the lender or defaulter where a suit has been filed

The applicability of this new framework is quite wide in terms of including even those lenders that do not fall within the definition of 'Lender' provided in this Directions. The obligations arising out of this new framework includes monthly filing of large defaulters to all CICs as per Annex I of this Directions. Further, the CICs shall be required to provide access to Credit Institutions¹ regarding all non-suit filed accounts of large defaulters. Whereas in respect to suit filed accounts of large defaulters, the CICs have been mandated to display their names on their websites.

¹ As defined in the Credit Information Companies (Regulation) Act, 2005

Comparison of Wilful Defaulters vs Large Defaulters

Criteria	Wilful Defaulter Framework	Large Defaulter Framework
Minimum Defaulted exposure	Rs 25 lacs	Rs 1 crore
Vintage of default	Upon the occurrence of a default, the lender must assess whether it qualifies as a willful default. Additionally, this assessment should be conducted again when the account is classified as a NPA.	The debt should have been classified as doubtful or loss
Applicability	Applicable to only the “lenders” identified in terms of the Directions	Applicable to all lenders irrespective of whether they are identified in the Directions.
Committees	Requirement to constitute an Identification Committee and Review Committee to identify a Wilful defaulter	No requirement of formation of separate committees
Reporting Requirement	The manner of reporting under this framework has been prescribed in Annex II of the Directions	The manner of reporting under this framework has been prescribed in Annex I of the Directions.
Bar on additional lending by the lender or any other lender	Exists	Does not exist

Consequences of classification as Wilful defaulter

Action against Wilful Defaulters

Once identified as a Wilful Defaulter, the lender has the following resources available:

1. Initiation of criminal action or legal action if warranted
2. Publishing of photographs.
3. Initiating penal actions in the form of debarring the borrower or any its associated entities as defined under the Directions from availing any additional credit facility.
 - a. The restriction in availing additional facility has been further extended to related parties of the borrower as well, that is to say in the event the Wilful Defaulter is an individual/natural person the debarment of availing additional credit facility is extended to all the entities wherein the said individual was associated as a promoter or a director or as one in charge and responsible for the management of the affairs. Whereas, if a company is declared as a Wilful Defaulter, then the promoter/holding/ subsidiary/ joint

venture/ associate company of the said entity will also be debarred from accessing any credit facility despite not being classified as a Wilful Defaulter.

- b. This bar shall be effective upto a period of one year after the name of the Wilful Defaulter has been removed from the list of Wilful Defaulters (LWD). However it shall be noted that additional funding, by either the wilful defaulter or the above mentioned related parties, for the purposes of floating any ventures will be restricted for a period of 5 years after the name of Wilful Defaulter has been removed from the LWD. Impact resonates throughout the industry even though classification is at an entity level
 - c. For the purpose of this restriction, additional facilities shall be restricted by all entities regulated by the Reserve Bank, irrespective of whether they fall within the definition of 'lender' or not.
4. At the board level, any person classified as a Wilful Defaulter shall not be eligible for holding any position on the board of the borrower company.
 - a. With respect to existing such persons holding a position in the board, the borrower company shall expeditiously undertake effective steps for removal of such persons.
 5. Lastly the Wilful Defaulter would not be eligible for restructuring

The actions above shall cease to be applicable on the associated entities when they are no longer associated with the wilful defaulters.

Photo framing and shaming a wilful defaulter

Publication of photographs of wilful defaulters has been a practice followed by banks, relying on a circular [Publishing of photographs of Wilful defaulters](#).

The lenders shall be required to establish a policy outlining the criteria for publishing the photographs of individuals classified and declared as wilful defaulters. This policy must be **non-discriminatory**, ensuring that the publication of photographs does not vary based on the borrower's class or status. The objective is to maintain fairness and consistency in the dissemination of information regarding wilful defaulters.

If the lender intends to permit, by its policy, the publication of photographs, the policy will also have to consider what is the intended objective to be achieved by the publication. For, as for financial sector entities, the same are already intimated by filing of particulars on RBI's portal. The idea cannot put the defaulter to embarrassment or create duress on the borrower. The idea also may not caution the members of the public, as the wilful defaulter is not like a runaway criminal. Hence the policy has to clearly codify the intent of the publication.

Compromise and Settlement

The Directions states that *..Wilful Defaulters or any entity with which a wilful defaulter is associated shall not be eligible for restructuring of credit facility."*

And in the RBI circular dated June 8, 2023 it is mentioned that- *REs may undertake compromise settlements or technical write-offs in respect of accounts categorized as Wilful Defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.*

So restructuring cannot be done but the lender may enter into a compromise settlement. However, even in case of compromise settlements, the time for repayment should not exceed 3 months.

Once, the defaulting borrower enters into a compromise settlement with the lender, and the entire settlement consideration is cleared, the tag of wilful defaulter gets removed.

For further understanding of what constitutes compromise and settlement you may refer to our earlier [write up](#).

Action against auditors

The implications of these Directions have been further extended to Auditors as well, similar to the Circular, in the cases where the lender finds the auditor negligent and deficient in conducting the audit. Such lack of diligence by the auditors is to be reported to the National Financial Reporting Authority /Institute of Chartered Accountants of India in the form of formal complaint. Further such complaints shall also be forwarded to the Reserve Bank (Department of Supervision, Central Office) and Indian Banks' Association (IBA) which shall eventually prepare a caution list of such auditors that shall be considered by lenders before assigning any kind of work to them.

Action against loan sourcing partners/third parties

Similar to the above requirement in the event the classification of Wilful Default is on account of some negligence or deficiency by the third parties engaged by the lender or loan sourcing partners, the lender shall forward the details of such third parties to the Indian Banks' Association (IBA) for records who shall eventually publish a caution list that shall be circulated amongst the lenders. The lenders shall thereafter consider this list before assigning any kind of work to third parties. This requirement shall be applicable to all the lenders irrespective of their membership status with IBA.

Other consequences of Wilful Defaulters

Apart from the above-mentioned actions against the Wilful Defaulters, such defaulting borrowers are also subject to the following further consequences in terms of other applicable provisions of law:

- Restriction to file an application under Section 29A of the Insolvency & Bankruptcy Code 2016
- Prohibition under Regulation 5 of SEBI(Issue of Capital & Disclosure Requirements) Regulations 2018 from being eligible for public issue if the issuer or its promoters are declared as Wilful Defaulters.
- Travel restrictions have also been imposed by the Ministry of Home Affairs to Immigration Authorities to retain or prevent such defaulting borrowers from leaving India.
- Difficulty in raising any form of credit in the future as credit rating can be severely impacted.

Before selling off the loans

The Lenders although have the option to sell off the Wilful Defaulters loan account however it must be noted that before such transfer the investigation with respect to the classification of Wilful Defaulter must be completed for all accounts with outstanding of Rs 25 lakh and above irrespective of its classification as NPA. That is to say, the lender may have to wait for 6 months from the date of classification of NPA apart from the Minimum Holding Period(which may be 3 to 6 months as the case may be) before transferring the loan exposure to other transferees.

Further, the details of such Wilful Default establishment shall be conveyed to the transferee who shall thereafter be responsible for undertaking the reporting requirements. Such reporting shall be continued by the transferee until the balance remaining to be recovered in their account plus the amount written off by the transferor falls below the threshold of INR 25 lakh.

When does a Wilful Defaulter come off the tag

Once classified as a Wilful Defaulter, the tag can only be removed if the defaulting borrower undertakes either of the following:

- The defaulting borrower clears his dues
- The defaulting borrower enters into a compromise settlement with the lender, and the entire settlement consideration is cleared
- The defaulting borrower clears so much of his dues as to bring the outstanding amount to less than Rs 25 lacs
- The defaulting borrower undergoes a CIRP which is implemented; however, the promoters of the defaulter will continue to be classified as Wilful Defaulter

It may be noted that the sale of the Wilful Defaulters account to the other lenders/ARCs shall not be construed as recovery and therefore the tag of Wilful Default shall continue.

Preventive Measures for Wilful Defaulters

Regulated entities must adhere to strict protocols for credit appraisal and fund utilization monitoring to effectively manage lending risks. Key measures that must be implemented include:

- During the credit appraisal process, entities will be required to verify whether any directors, guarantors, or key management personnel of a borrowing company appear on lists of large defaulters or willful defaulters.
- Verification should be conducted using reliable sources, such as DIN or PAN, rather than relying solely on declarations from the borrowing company.
- To safeguard against misuse of funds, regulated entities must closely monitor how borrowed funds are utilized. Borrowers are required to provide certificates confirming that the funds have been used for their intended purpose.
- The Directions also emphasize the incorporation of comprehensive measures into lenders' loan policies to oversee the end-use of funds effectively. These measures include rigorous scrutiny of

financial statements, regular inspections of secured assets, periodic audits of accounts, and on-site visits to borrower facilities.

- For project financing, certification from Chartered Accountants is mandated, but lenders should not solely depend on these certificates. Instead, lenders are encouraged to strengthen the credit risk management systems and conduct thorough due diligence, especially for short-term corporate or clean loans. Ensuring that only borrowers with strong integrity and reliability receive such loans helps maintain the overall quality of the loan portfolio and reduces systemic risk.

Links to our previous write ups

https://vinodkothari.com/wp-content/uploads/2017/02/Article_on_Wilful_defaulter-1.pdf