

# Bad Bank

February 2, 2022

**In news-** The bad bank – National Asset Reconstruction Company Limited – is ready to commence operations with 15 cases worth Rs 50,335 crore to be transferred by March 31.

## **What is a Bad Bank?**

- A Bad Bank is an Asset Reconstruction Company (ARC).
- ARC or Bad Bank buys bad loans from the commercial banks at a discount and tries to recover the money from the defaulter by providing a systematic solution over a period of time.
- It will manage these Non-Performing Assets in suitable ways, some may be liquidated, others may be restructured, etc.
- The **aim of setting up a bad bank is to** help ease the burden on banks by taking bad loans off their balance sheets and get them to lend again to customers without constraints.

## **Key updates-**

- The state-run Punjab National Bank (PNB) put its entire 10.01% stake in Arcil, one of India's oldest ARCs with assets worth Rs. 12,000 crore under management, for sale in February 2021.
- It was followed by private lender IDBI Bank, which, too, has begun looking for a buyer to sell its 19.18% stake in Arcil.
- Similar talks are underway to divest ownership in ASREC (India) Ltd, a Mumbai-based ARC.
- Three public sector banks Union Bank of India, Indian Bank and Bank of India jointly intend to sell up to 88.4 million shares, constituting up to 90.31% of the total equity share capital of ASREC.
- There are also eight other banks including SBI, Canara

Bank and Bank of Baroda are underway to divest ownership in ASREC (India) Ltd.

- According to RBI data, 7.5% of all bank loans had turned bad by the end of March 2021.
- With NARCL coming into being, the major positive feature is that it will not face the problem of aggregating debt, a problem that ARCs have been facing for a long time.

### **ASREC (India) Limited-**

- ASREC is a **Public Limited Company incorporated under the Companies Act 1956 has been granted certificate of registration by RBI on October 11, 2004** to carry out activities under Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002.
- The Company **acquires Non Performing Assets (NPAs) from the Banks / Financial Institutions** at mutually agreed prices with the objective is to maximise the returns through innovative resolutions strategies.
- ASREC positions itself as the multi lender ARC in the public sector aiming to earn the confidence of the financial system in the effective resolution of NPAs by operating in a transparent manner with flexibility of the private sector.

### **National Asset Reconstruction Company Ltd ( NARCL)-**

- NARCL, or the so-called bad bank, has been registered in Mumbai with a paid-up capital of Rs. 74.6 crore, citing filings with the Registrar of Companies (RoC).
- The bad bank will be headed by Padmakumar Madhavan Nair, a stressed assets expert from State Bank of India (SBI), as managing director.
- NARCL will house bad loan accounts of Rs.500 crore and above.
- Establishing NARCL is part of the government's efforts

to clean up the financial system, which is sitting on one of the biggest piles of bad assets in the world.

- It is expected that the warehousing of bad loans by NARCL will allow banks to cut losses and renew lending.

The idea of a bad bank has been tried out in countries such as the United States, Germany, Japan and others in the past.