

UNION BANK OF INDIA

ONE TIME SETTLEMENT OF NPA ACCOUNTS

1. PRINCIPLES GOVERNING COMPROMISE SETTLEMENTS:

The Principles governing compromise settlements of NPAs are listed below:

- A) A compromise settlement, with the borrowers with or without involving remission or composition of dues can be negotiated, provided it is ensured that such compromise results not only in early recovery of dues but also saves cost to the Bank in terms of legal expenses and other costs.
- B) It should be kept in mind that Compromise settlement is a business decision and not an administrative decision. Therefore, it should be ensured that compromise settlement gives tangible business benefit to the Bank.
- C) Recovery of debts due to Bank is an important activity that aims at protecting the interest of the depositors and other stake holders. If Banks do not recover NPAs then ultimately depositors and other stake holders will suffer. Therefore, any compromise settlement should have an underlying objective of recovery of dues to the maximum extent possible at minimum expense and within shortest possible time frame.
- D) While negotiating compromise settlements it should be appreciated that Bank is Public Sector Entity and the stake holders are taxpaying general public. Therefore, more than interest of the Borrowers, the interest of Public at large should be kept in mind.
- E) It should be recognized that any remission, relief, sacrifice of dues or concession to the borrowers will indirectly be loss to the exchequer and the general public. Therefore, the demands of the borrowers for remission, relief, sacrifice of dues or concession should be carefully weighed and it should be ensured that they are not unduly disproportionate to the borrower's/guarantor's capacity to pay going by assets owned by him/her.
- F) While arriving at a negotiated settlement, the advantage available to the Bank as to immediate prospect of recovery should be weighed in comparison to the time taken and the likely recovery by following legal or other course of action i.e. opportunity cost analysis be made.
- G) The internal reporting system should ensure prompt reporting of all compromise proposals approved, to the next higher authority.
- H) There shall be Committee approach for vetting and recommending compromise / relief proposals to ensure fair and proper assessment of proposals.

2. FACTORS TO TAKEN INTO CONSIDERATION WHILE NEGOTIATION COMPROMISE SETTLEMENTS:

2.1 The 'module' approach:

Compromise settlements will be negotiated in accordance with the principles set out above and as per the module approach set out herein in terms of the afore stated principles . Major factors that should be reckoned besides other factors while negotiating compromise settlements are as under:

- I. Realizable value & Marketability of securities charged to the Bank if the advance/loan is secured.
- II. Aggregate means of borrowers / guarantors that is to say his income, other assets etc.
- III. Age of the NPA.
- IV. Legal position of the Bank.

All the above factors have been assigned scores to ensure objectivity while negotiating compromise settlements and the authorized officials negotiating compromise settlement shall first draw up a score card and calculate the minimum dues recoverable. Any offer less than the said minimum amount (module dues) from the borrower involves sacrifice from the Bank.

The above stated approach for negotiating compromise settlement is called module approach and the minimum amount recoverable is called module amount.

2.2 Settlement Amount should not be less than NPV of realizable value of the available Securities.

Bank while entering into one time settlement with borrowers should ensure that the minimum settlement amount is not less than the NPV of the realizable value of the available securities. Further, in case, where settlement amount is payable in installments, then net present value of settlement amount should not be less than NPV of realizable value of available securities. If there are assets of borrower/guarantors subject to attachment by competent courts, the said assets under attachment shall also be reckoned as security and for the purpose of NPV.
