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Bad Bank will be far more useful than the Asset Reconstruction Companies: CARE Ratings

By [Saloni Shukla](#) & [Sangita Mehta](#), ET Bureau | Updated: Feb 16, 2017, 05.26 PM IST

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MUMBAI: The Public Sector Asset Rehabilitation Agency (PARA) commonly known as the “Bad Bank” will be far more useful than the Asset Reconstruction Companies (ARCs) as it will be owned by the government says a latest [CARE Ratings report](#).

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“PARA is a useful concept and scores over ARCs in so far as that it will be owned by the government,” the report says. “Addressing this issue directly would free resources of the government in capitalizing banks in future, which would also be better placed to raise the same from the market.”

The report also red flags the need for consensus among bankers to make the new [bad bank](#) idea successful. “This is critical because history shows that banks have been really slow in selling assets to the restructuring companies as they were not ready to take the kind of haircuts that these companies expect them to do,” the report highlights.

Banks have been saddled with bad loans of over Rs 7.3 lakh crore at the end of December 2016 with stressed asset ratio rising to 12.3% according to the latest RBI data. Also [PSU banks](#) could only recover Rs 19,757 crore last fiscal year against Rs 27,849 crore in fiscal 2015.

Earlier the discount rates on buying bad loans ranged between 25%-30% but a change in regulation of upfront 15% proceedings to be done in cash has led the discount rates used for acquiring the NPAs to increase and range between 50-60% of the book value.

“If PARA has to function smoothly, it has to ensure that the same pricing issue doesn’t remain as neither the restructuring companies nor the banks want to bear the loss,” the CARE report says. “The critical part will be the valuation of the [NPA](#) by PARA. There should be an independent evaluation of the NPA by recognized agencies so that there is uniformity in pricing.”

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