

FAQs on Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (MD-TLE)

Q1: The MD-TLE has various clauses incorporating the term ‘time of transfer’. What is to be taken as the ‘time of transfer’?

Ans: It is clarified that ‘time of transfer’ would mean when the associated risks and rewards, to the extent of economic interest transferred and as documented in the loan participation, assignment or novation contract, becomes binding on the transferor and transferee.

Q2: Clause 15 of MD-TLE, which leaves it to the discretion of the contracting parties to decide upon the distribution of the principal and interest income from the transferred loans, and Clause 34, which requires consideration to be paid upfront, appear contradictory.

Ans: The provisions of Clause 34, that require the transfer to be only on cash basis at the time of transfer of loans, shall be without derogation of the provisions of clause 15, which pertains to retained economic interest. However, it is reiterated that any retention of economic interest under clause 15 by the transferor must not result in credit enhancement.

Q3: Clause 77 of the MD-TLE stipulates the valuation of investment by a transferor in SRs backed by stressed loans transferred by it. Whether this treatment will be applicable for the entire investments holding or only for SR investments that are made subsequent to the release of the [MD-TLE on September 24, 2021](#)?

Ans: It is clarified that treatment advised in the relevant clause (revised clause 77A) for investment by a transferor in SRs backed by stressed loans transferred by it are applicable to all SR investments outstanding as on the date of issuance of the MD. However, lenders other than specified at clause 3(a) & (e) shall be guided by the proviso added to the clause 77A.

Q4: Clause 73 permits transfer of fraud accounts to ARCs. Can the fraud accounts be transferred to permitted lenders other than ARCs?

Ans: There is no restriction on transfer of loan accounts classified as fraud by lenders, which was the position even before the issue of MD-TLE, except for ARCs. Lenders can transfer such exposures to permitted transferees as per their board approved policies in compliance with Clause 73.

Q5: Chapter III of the MD-TLE advises treatment for loans not in default. For defaults that may happen during few days gap between the date due-diligence is completed and loans transfers, what should be the treatment?

Ans: Ideally, the gap between time of transfer and due-diligence cut-off date should be minimal and the board approved policy should strive to ensure that. However, to account for such scenario and to ensure strict compliance with the stipulation that no loans in default is transferred under provisions of chapter III, lenders are advised to formulate a board approved policy covering all pertinent aspects.

Q6: In case of transfer of pools of loans in compliance with clause 36 of the MD-TLE, can prudential norms be applied at the pool level?

Ans: The treatment in clause 36 is only to facilitate transfer of loans where due to operational or other constraints, the transferee does not conduct a loan level due diligence. This is without prejudice to the requirement under Clause 46 to apply prudential norms at the individual loan level.

Q7: Can all cooperative banks sell their stressed assets to Asset Reconstruction Companies (ARC) against Security Receipts (SRs)?

Ans: In terms of [MD-TLE dated September 24, 2021](#), Primary (Urban) Co-operative Banks (PUCBs), State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs) have been recognised as eligible transferors of stressed loans. The relevant provisions of [circular “Guidelines on Sale of Financial Assets to Securitisation Company/Reconstruction Company \(SC/RC\) by Multi State Urban Cooperative Banks” dated March 28, 2014](#), in terms of which only multistate cooperative banks could sell stressed assets to ARCs have been repealed. Accordingly, all cooperative banks are permitted to transfer stressed assets to ARCs in compliance with the provisions of the MD-TLE and other extant regulatory instructions.