

## Bank Facility Ratings

### *Interpretation of Default*

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CARE's ratings are an opinion on the relative ability and willingness to repay debt in a timely manner. CARE, in its published material on what constitutes a default, has maintained that 'Default' is one day missed payment. In a credit perspective, CARE's approach towards bank loan ratings and definition of default in Bank loans remains unchanged and default remains a day of missed payment. However, the approach needs to be clarified given the nuances of bank loan ratings versus traditional capital market instruments.

The loan markets' understanding of default has traditionally included a period of 'forbearance' after scheduled repayment date which is absent in capital market instruments. This is possibly due to the larger role of client relationship much beyond the outstanding loan and the lenders' confidence in realising value from the available collateral. Moreover, the nature of bank facilities, including multiple accounts and facilities together with the availability of monitoring systems and controls within our banking system call for a tweaking of the metric of an 'Event of default'. Accordingly while treating missed payments, CARE takes into account the explicit grace period allowed by the banks to the clients to honour their obligations. Moreover, to account for such peculiarities in the

## Criteria Research

Indian banking system and practical difficulties involved therein, CARE would normally consider delays beyond a week as constituting missed payment, in case of bank facilities for the purpose of default recognition.

While assigning rating to various types of bank facilities like Bill discounting, Letter of Credit, Bank Guarantees, etc., CARE takes into account nuances of such facilities while determining an 'Event of Default' which is consistently applied across all the issuers.

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