

SOP on Restructuring of Advances for COVID-19-related Stress

Background

RBI Circular No. RBI/2020-21/16 dated Aug 6 2020 and RBI/2020-2021/17 dated Aug 6 2020 relate to resolution framework for COVID 19 related stress of borrowers.

Objective

In order to support those borrowers who have demonstrated intention to repay but are finding it difficult to repay or being unable to service the instalment due to COVID related stress, there arises a requirement to provide some relief to the borrower. The intention and purpose of such a relief is to modify existing repayment terms by restructuring the original account. Accounts which have been restructured already will not be eligible for restructuring again under this policy.

Scope and Applicability

This policy is applicable to all branches and products under Vehicle Finance excluding Tractors for agricultural purposes. For the purpose of categorization, all these products shall be classified under MSME, Personal and Other loans. This policy is applicable to all agreements meeting the eligibility criteria applicable for each category.

- Only loans which have stress on account of COVID19 to be entertained under this process.
- Reference date for outstanding amount of debt to be considered for resolution Mar 1st 2020
- Securitised and assigned agreements shall be considered subject to receipt of specific consent from the respective assignees.
- Those customers where we have sanctioned additional loan under ECLGS can be excluded.

Responsibility

Keeping within the RBI defined policy the business shall –

- Identify customers eligible for restructuring of loans
- Identify the additional conditions for sanction of the new terms of the loan

Eligibility Criteria

1. MSME loans

Existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification, subject to the following conditions:

- The aggregate exposure to the borrower does not exceed ₹25 crore as on March 1, 2020 (with all MLIs and to be validated by bureau).
- The borrower's account was a 'standard asset' as on March 1, 2020 – hence loans upto 89 days overdue as on 1st Mar 2020 is eligible for restructuring.
- The restructuring of the borrower account is implemented by Dec. 31st, 2020 -
- The borrowing entity is GST-registered on the date of implementation of the restructuring, unless exempted under the GST regulations prevailing as on 1st Mar 2020.
- Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.

2. Personal

- Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days as on March 1, 2020.
- The eligible borrowers' accounts should continue to be classified as Standard till the date of invocation of resolution under this framework. For this purpose, the date of invocation shall be the date on which both the borrower and lending institution have agreed to proceed with a resolution plan under this framework.
- Resolution under this framework may be implemented not later than December 31, 2020.

3. Other loans / exposures

- MSME loans with aggregate exposure above Rs 25 crores;
- Non business purpose loans where the borrower is not an individual;
- Business loans to non MSMEs
- Any other loans not covered in MSME or Personal Loans/ Farm Credit and is not part of exclusions
- Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, but not in default for more than 30 days as on March 1, 2020.

In case of borrowers with high exposure i.e. Rs 150 cr and above, to multiple lenders, the business will ensure at least lenders with overall 75% exposure by value and 60% by count are part of the resolution process.

Resolution Plan

The resolution plans for reschedulement can be by any of the following ways -

- Reduction of Loan EMI – Loan EMI reduction by modifying the original terms of the agreement.
- Extension of tenure - Allow extension of the residual tenor of the loan, with or without payment moratorium (not exceeding 2 years). The 2 year period is considered in respect of maturity date as on Aug 31 2020.
- Any other scenario which is tantamount to restructuring/reschedulement/ modification of the terms of the original agreement .

Repayment Period

The business will ensure that the repayment period is not extended beyond 65 years of age of the borrower.

Approach to the Restructuring

- Business shall consider -
- Assess cash flows of the borrowers
- Define the quantum of restructuring
- Number of months paid and/or number of months delinquent
- Account performance during moratorium - Number of months of moratorium availed (if availed) or number of instalments paid/unpaid
- Post moratorium instalment NACH /SI presentation outcome
- Location geographic impact of COVID status
- Customer declaration on COVID impact

The reduction of income and its financial impact on the customer will be reviewed on the basis of the information provided which does show the drop in cash flow due to the COVID-19 impact. The company will assess the viability of the customer to pay the restructured EMIs basis the information provided, before granting the restructuring. Apart from the viability calculations, the repayment track record of the customer, and the responses given by the customer while availing moratorium earlier will also be factored in the restructuring decision.

COVID 19 impacted borrower

Any borrower who could not run his business in the normal way during the lockdown period announced by the Central Government is considered as COVID impacted. This fact should be cross verified by the branch manager and a declaration in standard format to be obtained from the borrower. In addition the business can include location and/or industry conditions which have been impacted due to COVID to identify eligible customers.

Asset Classification

All loan accounts restructured under this policy shall on the date of reschedulement be retained in the same stage they were as on March 1, 2020 under ECL model. Subsequent staging shall be based on actual performance of the loan except that upgrade to Stage 1 can be done only after one year from the date of reschedulement.

Provisioning

Provisioning for loan accounts restructured under this policy shall be as below –

If anytime during the period 12 months prior to March 1, 2020,

- the loan had been in Stage 3, provision rate relevant for Stage 3 at product segment level will apply.
- the loan had not moved beyond Stage 2, provision rate relevant for Stage 2 at product segment level will apply.
- the loan had remained in Stage 1 throughout, provision rate relevant for Stage 1 at product segment level will apply.

However, it shall be ensured that minimum provision of 10% of EAD is maintained for each restructured loan. “Additional provision” for each loan on the date of reschedulement is the difference of provision determined as above minus provision rate applicable as under regular ECL policy for non-moratorium and non reschedulement scenarios. 50% of the additional provision can be reversed when the borrower repays 20% of the principal amount (as on reschedulement date) without slipping into Stage 3 and the balance 50% can be reversed when the borrower repays further 10% of the principal amount without slipping into Stage 3. However, for the purpose of comparing IRAC provision with ECL provisions, the company shall follow the provisioning norms specified by RBI

Performance Review

Post implementation performance of loans under this resolution plan shall undergo a monitoring period defined as

- Till the customer pays 10% of the residual debt or
- One year from the commencement of the first payment of interest or principal

In case of any default in this period, with any of the signatories to the ICA, is remaining unresolved within the next 30 days (Review period), the asset classification with all lending institutions (including those who did not sign the ICA) shall be downgraded to NPA from the date of the resolution plan or from the date from which the borrower was originally classified as NPA before the implementation plan, whichever is earlier.

Disclosures and credit reporting

- Quarterly disclosure shall be made as per Format A in the financial statements for the quarters ending March 31, 2021, June 30, 2021 and September 30, 2021.
- Half-yearly disclosure shall be made as per Format B starting from the half-year ending September 30, 2021 till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into NPA, whichever is earlier.
- Credit reporting shall reflect the “restructured” status of the account if the resolution plan involves renegotiations that would be classified as restructuring under the Prudential Framework.

Promo Code

The loans shall be booked under a separate promo code.

Exclusions

This policy does not apply to the following

- Farm Credit / Loans to Primary Agricultural credit societies, etc for on-lending to agriculture
- Exposures to financial service providers – (means a person engaged in the business of providing financial services in terms of authorisation issued or registration granted by a financial sector regulator – covers HFCs, NBFCs etc)
- Exposure to Governments, government bodies, and body corporates established by Govt.
- Credit facilities provided to own personnel/staff.

Process -

- All the above process and conditions are part of Branch Ops health check as well as CPU health check.
- PDD updation should be duly checked by both branch operations and CPU.
- Credit shall appraise every proposal as per normal process i.e. checking repayment track, quantum of funding, valuation or self-inspection, IDV etc. as per existing norms.
- All other policies and processes viz. KYC, PSA etc shall be applicable
- Any statutory charges can be collected i.e. ROC, Stamp Duty, NeSL etc.
- No cross sell, service charges, document charges are required hence can be waived.
- Holiday period can be 30/60/90 days as decided by the approving authority.
- Business IRR should be maintained.
- Fresh ACH mandate is to be collected.
- In case the customer is having multiple agreements, he can choose which agreement is to be restructured.
- Capitalisation of AFC charges can be done by booking a fresh loan. However, an equal amount will have to be provisioned.
- The restructuring can happen in the same agreement if there is no additional credit i.e. no additional loan amount. Hence for such cases no fresh application and no fresh loan agreement is required. Only the undertaking and fresh ACH mandate is required.
- If there is additional credit i.e. additional loan amount then we need fresh application form and fresh loan agreement set alongwith the ACH mandate and Undertaking from the customer. However, RTO booklet shall not be required.

Identification of customer is with the field team subject to fulfillment of conditions laid down under this policy for restructuring. The call for restructuring a loan to be decided on case to case basis.

Delegation of Authority

The reschedule proposal can be approved only by ED and CFO jointly.

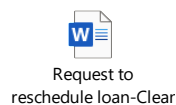
Deviation

Any deviation on the above terms can be approved by ED / MD – deviation as per the credit empowerment matrix & existing DOA.

Note - There is no discretionary or deviation approval from the list of documents as per the KYC policy and any deviation cannot be approved at any level including HO. Hence, any KYC related deviation approval or empowerment is not permitted and cannot be exercised or downloaded by any authority.

Annexure

1. Declaration Format from Borrower.



2. Health check list for Eligibility Criteria check.

Branch	
Area	
Region	
Zone	
Agreement Number/Lead ID	
Product	
Loan Type	MSME/Personal/Others
Aggregate Exposure	
DPD as on 1/3/20	
GST Registration #	
Resolution Plan type	
(i) Reschedulement	
(ii) Moratorium period	
(iii) Tenure modification	
(iv) Reduction of Loan EMI	
(v) Rebooking as new loan with additional loan amount	
(vi) Extension of tenure	
(vii) EMI modification	
(viii) Any other scenario	
Age of Borrower	
COVID Impacted	
Declaration format	
Promo Code	
Approving Authority	