Board Policy on Resolution of Advances for COVID-19-related Stressed Accounts

Background

RBI Circular No. RBI/2020-21/16 dated Aug 6 2020 and RBI/2020-2021/17 dated Aug 6 2020 And RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 May 5, 2021 relating 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. In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India in the recent weeks, it has been decided to extend the above facility for restructuring existing loans without a downgrade in the asset classification subject to conditions.

Scope and Applicability

This policy is applicable to all branches and products of the company subject to exclusions as defined under this policy~~.~~

For the purpose of categorization, all these products shall be classified as –

a) MSME.
b) Individual and Small businesses
   (i) Individual - personal loans.
   (ii) Individual - business purpose loans.
   (iii) Small businesses - loans other than MSMEs (Retail & Wholesale Trade).

This policy describes the eligibility for each category. Only loans which have stress on account of COVID19 to be entertained under this process.

a) Customer Requests from May 5th 2021, will be considered for restructuring.
b) Customer Requests prior to that will be handled as part of normal restructure as per RBI circular RBI/DNBR/2016-17/45 Master Direction DNBR. PD. 008/03.10.119/2016-17 September 01, 2016 and updated from time to time whereby these accounts will be considered as Stage 3 (NPA) and will continue to be classified as NPA for one year even if the account has become standard in the intervening period.
c) Moratorium/restructuring will also be extended for Customers who are non MSME customers and who were offered restructuring in 1.0. They should satisfy the eligibility conditions as per the restructuring circular dated May 5th, 2021, for Individuals and small businesses, and the overall tenure for the customer doesn't change before and after the second restructuring.

a) MSME Loans

The eligibility criteria is –

(i) The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.

(ii) The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 31, 2021.

(iii) The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹25 crore as on March 31, 2021.

(iv) The borrower's account was a 'standard asset' as on March 31, 2021.

(v) The borrower's account was not restructured in terms of the circulars DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11, 2020; or DBR.No.BP.BC.18/21.04.048/2018-19 dated January 1, 2019 (collectively referred to as MSME restructuring circulars).

(vi) The restructuring of the borrower account is invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower. The decisions on applications received by the lending institutions from their customers for invoking restructuring under this facility shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications. The decision to invoke the restructuring under this facility shall be taken by each lending institution having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

(vii) The restructuring of the borrower account shall be implemented within 90 days from the date of invocation.

(viii) Udyam registration of the borrower is mandatory. if the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented.

(ix) Upon implementation of the restructuring plan, the lending institutions shall keep provision of minimum 10 percent of the residual debt of the borrower as on the date of the restructure.

(x) All other instructions specified in the circular DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020 shall remain applicable.

In respect of restructuring plans, asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.

In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, lending institutions are permitted, as a one-time measure, to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by lending institutions by September 30, 2021.

The reassessed sanctioned limit / drawing power shall be subject to review at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.

b) Individual and Small Businesses

(i) Individual loans – business purpose loans

Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021

Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, as on March 31, 2021. If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.

Being non MSMEs, Udyam certificate is not required.

GST registration condition will not apply if exempt from GST-registration

(ii) Individual loans – personal loans viz auto loans not for commercial purposes, consumer durable loans, gold loans, education loans, home loans, LAP, personal loans, loan against shares

The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹25 crore as on March 31, 2021.

Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, as on March 31, 2021. If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.

Being non MSMEs, Udyam certificate is not required.
GST registration condition will not apply if exempt from GST-registration

(iii) <u>Small businesses loans – other than MSMEs (Retail & Wholesale Trade)</u>

Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard, as on March 31, 2021. If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.

Being non MSMEs, Udyam certificate is not required.

GST registration condition will not apply if exempt from GST-registration.

Provided that the borrower accounts / credit facilities shall not belong to the categories listed in sub-clauses (a) to (e) of the Clause 2 of the Annex to the Resolution Framework 1.0, read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020).

Provided further that the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 subject to the special exemption where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratoria or moratoria of less than two years and / or extension of residual tenor by a period of less than two years, lending institutions are permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps in Clause 12 (viz The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years), and the consequent changes necessary in the terms of the loan for implementing such extension. *The overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years.*

Provided further that the credit facilities / investment exposure to the borrower was classified as Standard by the lending institution as on March 31, 2021.

The decision to invoke the resolution process under this window shall be taken by the company shall be independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower. The last date for invocation of resolution permitted under this window is September 30, 2021.

Resolution Plan

The resolution plan may include –

(i) rescheduling of payments,
(ii) conversion of any interest accrued or to be accrued into another credit facility,
(iii) revisions in working capital sanctions,
(iv) granting of moratorium etc. based on an assessment of income streams of the borrower.

However, compromise settlements are not permitted as a resolution plan for this purpose.

The instructions contained in the circular DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020 on “Resolution Framework for COVID-19-related Stress – Financial Parameters” shall not be applicable to resolution plans implemented under this window.

The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. The resolution plan shall be deemed to be implemented only if all the conditions in Paragraph 10 of the Annex to the Resolution Framework – 1.0 are met.

Asset classification and provisioning

If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers’ accounts classified as Standard may be retained as such upon implementation, whereas the borrowers’ accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.

The subsequent asset classification for such exposures will be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to specific category of lending institutions (“extant IRAC norms”).

In respect of borrowers where the resolution process has been invoked, lending institutions are permitted to sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance may be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.

The lending institutions shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt).

Residual debt, for this purpose, will also include the portion of non-fund based facilities that may have devolved into fund based facilities after the date of implementation. ECL provisions for these set of customers will be at ten percent or stage 2 rate, whichever is higher. For Loan against property product, the 10% ECL provision or Stage 2 ECL provision rate, whichever is higher will be applicable for all type of restructured accounts (restructuring with moratorium or restructuring without moratorium)

Half of the above provisions may be written back upon the borrower paying at least 20 per cent of the residual debt without slipping into NPA post implementation of the plan, and the remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.

Provided that in respect of exposures other than personal loans, the above provisions shall not be written back before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium.

The provisions required to be maintained under this window, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

With respect to MSME customers with Udayam certification (benefit of restructuring considered as per MSME circular dated 5th May 2021) – cut off for both Asset classification and provisioning will be 31st March 2021 (Customer account needs to be Standard – including Group accounts)

With respect to Individual and Non MSMSE customers (benefit of restructuring considered as per Individual and Small business circular dated 5th May 2021)– cut off for both Asset classification and provisioning will be date of invocation(Customer account needs to be Standard – including Group accounts)

Due Diligence

The company shall satisfy itself that the same is necessitated on account of the economic fallout from Covid-19.

The business shall assess the location geographic impact and cash flows of the customer. The reduction of income and its financial impact on the customer will be considered on the basis of the information provided. Any borrower who could not run his business in the normal way during the restrictions/lockdown period announced by the Government/areas impacted by COVID is considered as COVID impacted. The decision to extend restructuring / moratorium shall be at the discretion of the company.

Disclosures and Credit Reporting

Lending institutions publishing quarterly financial statements shall, at the minimum, make disclosures as per the format prescribed in Format-X in their financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of Part A of this framework should also be included in the continuous disclosures required as per Format-B prescribed in the Resolution Framework – 1.0.

The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 22 above, and the aggregate exposure of the lending institution to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.

Lending institutions that are required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures.

Customer Communication

The decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications.

Grievance Mechanism

The company shall provide suitable grievance redressal mechanism to serve the customers to their complete satisfaction.

Public Domain

The Board approved policy shall be available on the website of the lending institutions in an easily accessible manner.

Delegation of Authority

The reschedulement proposal can be approved only by BH/ED and CFO jointly.

Annexures – Notifications.

Resolution 2.0- Covid-19 related stres

Resolution 2.0 - Covid-19 related stres

RBI2020-2116 dated Aug 6 2020.PDF

RBi Notification - SME restructuring 1.0

RBI Notification - Restructuring 1.0.pdf

master directions.PDF

Master Circular - Prudential norms on I

Gazette Notification S.O. 2119 (E) dated Ju

DOR.No.BP.BC1321.04.0482020-21 dated S

DOR.No.BP.BC421.04.0482020-21 dated Au

DOR.No.BP.BC.3421.04.0482019-20 dated

DBR.No.BP.BC.1821.04.0482018-19 dated J