<u>POLICY ON RESOLUTION FRAMEWORK 2.0 : RESOLUTION OF COVID-19 RELATED STRESS OF INDIVIDUALS AND SMALL BUSINESSES</u>

Introduction

RBI has announced various relief measures with objective to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses.

On August 6, 2020, the Reserve Bank has announced a 'Resolution Framework for Covid19-related Stress', as a special window to enable lenders to implement resolution plan in respect of eligible corporate exposures and personal loans. The said guidelines will be hereinafter referred as Resolution Framework -1.0.

The resurgence of COVID-19 pandemic in India and consequent containment measures has posed new challenges and uncertainties in front of the economy. RBI has announced measures to address the potential stress to the individuals and small businesses through "Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses". The set of measures is broadly in line with the contours of Resolution Framework -1.0 with suitable modifications.

Accordingly, this policy is framed in pursuance of RBI Notification No.RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 on "Resolution Framework -2.0 Resolution of COVID-19 -related stress of Individuals and Small Businesses" and would broadly cover the following aspects :-

Part A : Resolution of advances to individuals and small businesses.

Part B : Working Capital Support for small businesses where resolution plans were implemented previously.

Part C : Disclosures and Credit Reporting.

Part A : Resolution of advances to individuals and small businesses.

1. **Eligibility**

The following borrowers shall be eligible for the window of resolution to be invoked by the lending institutions:

a. Individuals who have availed of **personal loans** (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on "XBRL Returns – Harmonization of Banking Statistics"), excluding the credit facilities provided by lending institutions to their own personnel/staff.

["Personal loans refers to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.)."

Consumer credit refers to the loans given to individuals, which consists of (a) loans for consumer durables, (b) credit card receivables, (c) auto loans (other than loans for commercial use), (d) personal loans secured by gold, gold jewellery, immovable property, fixed deposits (including FCNR(B)), shares and bonds, etc., (other than for business / commercial purposes), (e) personal loans to professionals (excluding loans for business purposes), and (f) loans given for other consumptions purposes (e.g., social ceremonies, etc.).However, it excludes (a) Education Loan, (b) loans for creation or enhancement of immovable assets (e.g.housing etc.) (c) loans given for investment in financial assets (shares, debentures etc.) and (d) consumption loans given to farmers under Kisan Credit Card]

b. **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.50 crore** as on March 31, 2021.

c. **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.50 crore** as on 31.03.2021.

Provided these eligible borrowers fulfil the following criteria:-

a. These eligible borrowers are **facing stress on account of COVID-19**

b. The borrower accounts should **not have availed of any resolution in terms of Resolution Framework -1.0** subject to special exemption mentioned under the head 'Convergence of the norms for loans resolved previously'.

c. The credit facilities / investment exposure to the borrower was classified as **'Standard'** by the lending institution as on March 31, 2021.

Illustrative list of parameters for determining stress on account of COVID-19

Personal Loans:

Individual borrowers impacted by COVID-19 would, inter alia, include those whose activities were adversely affected by income and/or expense factors like :

- Reduction in salary
- Job loss,
- Drop in income of individuals/family impacting his/her repayment capacity,
- Any other factors arising due to COVID which has impacted the financial /repayment ability of the borrower.

Exposure Other than Personal Loans impacted on account of COVID-19 :-

Business activities of the borrower may have been adversely affected by COVID-19 on account of factors like –

- Drop in demand for the product due to lock-down, restrictions of logistics etc.
- Cancellation / deferment of orders.
- Disruption arising out of lockdown, containment zones and other restrictions. Shutdown of the factory / work place. Delay in project implementation.
- Elongated working capital cycle on account of delay in realisation of debtors.
- Non-availability of adequate manpower, disrupted supply of raw-material etc.
- Inadequate transportation facilities for transport of goods / people,
- Death of key promoter director / managerial personnel due to COVID, which disrupted business decision administration & operations,
- Changes in government/regulatory policies
- Any other factors arising due to COVID (which has impacted the financial /repayment ability of the borrower).

Categories of borrowers not eligible under this window

The following categories of borrowers / credit facilities shall **not be eligible** for a resolution plan under this framework:

a. MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs.50 crores or less as on March 1, 2020.

b. Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated) except for loans to allied activities viz. dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture or other relevant instructions as applicable to specific category of lending institutions. (Also loans given to farmer households would be eligible for resolution under the Resolution Framework if they do not meet any other conditions for exclusion listed in the Resolution Framework.

c. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.

d. Exposures of lending institutions to financial service providers.

e. Exposures of lending institutions to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

f. Exposures of housing finance companies where the account has been rescheduled in terms of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under this framework has been invoked by other lending institutions. However, from the date of this circular, any resolution necessitated on account of the economic fallout of Covid-19 pandemic, shall be undertaken only under this framework.

2. <u>Invocation of resolution process</u>

- The resolution process under this window shall be treated as invoked when the bank and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.
- The decision to invoke the resolution process under this window 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.

3. <u>Permitted Features of Resolution Plan and Implementation :-</u>

- The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, 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 **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.**

[Note:- For commercial loans, post restructuring the total repayment period from the date of first disbursement should not exceed 15 years in case of infrastructure projects and 12 years in case of non-infrastructure projects.
Extension in repayment period making total repayment beyond 12 years may be granted for non-infrastructure projects wherever justified. However, the same should not exceed 15 years in any of the case. Deviation should be suitably justified in the processing note.]

- Revision in working capital limits would involve reassessment of the working capital cycle, reduction in margins etc. Such reduction in margin is proposed to the extent of 10% below the existing margins stipulated for existing Working Capital limit. E.g. If the borrower is having margin of 25% on existing CC limit then DP will be reworked considering 15% margin. For arriving the drawing power, Debtors above 90 days upto 180 days to be considered with 30% margin.

- The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, same shall be governed in terms of Paragraphs 30-32 of the Annexure to the Resolution Framework -1.0.

- The instructions regarding applicability of financial parameters contained in the circular DOR.No.BP.BC/13/21.04.048/2020-21 dated September 07,2020 on "Resolution Framework for COVID-19 related stress – Financial Parameters" **will not be applicable** to resolution plans implemented under this window.

Conditions relating to implementation of resolution plan

The resolution plan shall be deemed to be implemented only if all of the following conditions are met:

a. all related documentation, including execution of necessary agreements between bank and borrower and collaterals provided, if any, are completed by the bank in consonance with the resolution plan being implemented;

b. the changes in the terms of conditions of the loans get duly reflected in the books of the bank; and,

c. borrower is not in default with the bank as per the revised terms.

Any resolution plan implemented in breach of the above stipulated timeline shall be fully governed by the existing guidelines on restructuring covered in Master Circular – Income Recognition, Asset Classification, Provisioning and Other Related Matters – UCBs (DCBR.BPD (PCB) MC No.12 /09.14.000/2015-16 dated July 1, 2015).

4. Timelines

- The **last date for invocation** of resolution permitted under this window is **September 30, 2021**.
- In respect of applications received by the bank from it's customers for invoking resolution process under this window, the bank should complete assessment of eligibility for resolution as per the instructions contained in the circular and the Board approved policy. The **decision on the application shall be communicated in writing** to the applicant by the bank within **30 days of receipt of such applications.**
- The resolution plan should be **finalised and implemented within 90 days from the date of invocation** of the resolution process under this window.

5. Asset Classification and provisioning

a) Asset Classification :-

- 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, bank is 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.

b) Provisioning Norms :-

- Bank shall maintain 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.

- 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.

6. <u>Convergence of the norms for loans resolved previously</u>

- Convergence of the norms is applicable to following borrowers:-
  - In case of borrowers who meet the eligibility criteria as mentioned above.
  - In case of such eligible borrowers the resolution plans had been implemented in terms of the Resolution Framework – 1.0.
  - Such implemented 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. (This will cover borrower accounts where interest moratorium was not granted or was granted for less than 2 years).

For borrowers satisfying the above criteria, banks are permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor.

- 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.
- This modification shall also follow the timelines as specified in point no.4 above.
- For loans where such modifications are implemented, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

Part B : Working Capital Support for small businesses where resolution plans were implemented previously.

- In respect of eligible borrowers (other than personal loans) as per the criteria enumerated in **Part A** above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, bank is 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.

  [Reduction in margin is proposed to the extent of 10% below the existing margins stipulated for existing Working Capital limit. E.g. If the borrower is having margin of 25% on existing CC limit then DP will be reworked considering 15% margin. For arriving the drawing power, Debtors above 90 days upto 180 days to be considered with 30% margin.]
- The decision with regard to above shall be taken by bank by September 30, 2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.
- The assessment note should cover proper justification that modification in the working capital limit is necessitated on account of the economic fallout from COVID-19. (Illustrative list of causes of stress on account of COVID-19 covered in Part A above).

Part C : Disclosures and Credit Reporting.

- Bank is required to make the required disclosures in the annual financial statements along with other prescribed disclosures, in respect of accounts where resolution plan under this scheme is invoked.

- The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented under Part A of this window shall reflect the “restructured due to COVID19” status of the account. The credit history of the borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

Internal Guidelines regarding resolution proposals under the scheme

a) Application :

Borrowers facing stress on account of COVID-19 situation and proposing to avail benefit under this scheme should make a formal application at their respective Branches / SMEs. Borrower should submit the following documents alongwith the application form :-

Loans to individuals:

a. Salaried
   - Salary slips for January to March 2020 (pre-covid level) and latest 3 months.
   - Bank account statement for January to March 2020 (pre-covid level) and latest 3 months for the account in which salary is credited
   - Proof of loss of job from previous employer (in case of loss of job)
   - The customer's declaration of current unemployment, due to loss of job (in case of loss of job)

b. Self Employed
   - Bank account statements for January to March 2020 (pre-covid level) and latest 3 months along with income documents as may be applicable
   - GST returns for H1 FY2020 and H1 FY2021

Loans to entities: (Where Exposure is above Rs.1 crore)

- Last audited financial numbers for FY 2020.
- Provisional/Audited financial numbers for FY 2021.
- Projected financials over the tenor of the loan.
- GST returns (if applicable) / CA certified turnover (if GST not applicable) from April 01, 2020.
- Up to date bank statements of the account, in which the entity is transacting from April 01, 2020.

In case of small borrowers (where exposure is below Rs.1 crore) who are unable to provide the above details, the viability of the business will be evaluated in the following manner:-

- Track record of the borrower (Banking relations since, repayment record).
- Past financial performance. Turnover reported in the current months.
- Visit observations.
- Debit / Credit turnover in the account.
- Latest CIBIL report.

Resolution plan submitted by the borrower should factor financial parameters as outlined in bank's credit policy.

Bank may require additional information, documents and/or additional collateral to process the application of the borrower on case-to-case basis.

b) Sanctioning :

Respective sanctioning authority as per our approved delegation of powers in policy

c) Assessment and Viability :

The viability of the account (other than personal loan) shall be based on the benchmarks / financial parameters determined by the Bank in the Credit Policy. Deviations from the credit policy may be recommended with due justification and credit enhancement in form of additional security / guarantee of the promoters or directors may be insisted wherever found necessary.

Restructuring proposal should stipulate the timeline during which the viability milestones such improvement in certain financial ratios may be achieved. This may envisage introduction of additional funds in the business by promoters, sale of non-core assets among others. Milestone may also cover the progress on implementation of Greenfield / Expansion Project.

Latest visit observations should be incorporated in the assessment note.

Templates to be included in the processing note is attached as annexure.

Recommending / Sanctioning authority may stipulate the condition for conducting the Techno-Economic Viability (TEV) study from bank's empanelled consultant if found necessary.

In case of small borrowers (exposure is below Rs.1 crore) where formal resolution plan alongwith the CMA is not submitted, office will do the assessment based on the past performance and as per discussion / commitment with borrower and inputs during the visit.

For products such as Kwik Lap, Gupta Dhan Yojana, Samruddhi, Loan against property, Loan against rent receivable, Unnati, Micro Finance etc. assessment of the restructuring proposal will be done in line of eligibility criteria stipulated for the said product.

d) Monitoring and Reporting :

Operating units should periodically review the account in view of the milestones stipulated in the resolution plan. Quarterly visits should be paid.

The position of the accounts considered under the scheme should be reported to SCMC / Retail credit monitoring cell by operating units falling under the purview of SBU-Wholesale & SBU-Retail respectively on quarterly basis.

Consolidated position will then be reported to Board of Directors on quarterly basis.

e) **Processing fees :** One-time processing fees @0.10% of the restructured facilities with upper cap of Rs.2.50 lacs.

f) **Increase in Rate of Interest :**

In order to offset partial cost of additional provisions required to be made by the Bank, it is decided to increase the rate of interest of the borrowers applying for restructuring. Such rise in rate of interest is proposed in the range of 0.5% to 2.0%p.a.

Increase in the rate of interest should be decided based on the existing rate of interest charged to the borrower, rating of the borrower, moratorium / interest capitalization proposed under the restructuring package, expected timelines for reversal of provision.

In case where the resolution plan includes extension of moratorium for repayment of principal / servicing of interest, the reversal of provision may extend beyond 3 years. In such cases office shall endeavour to increase ROI by 1-2%. However in cases where provision is expected to be reversed within 3 years, additional ROI charged will be 0.50%.

Also in cases where the existing rate of interest enjoyed by the borrower is below 10%, office should explore to increase the rate of interest to the maximum extent.

g) **Documentation :**

In cases where the resolution plan is implemented, the operating units should obtain on record “Restructuring Agreement” covering the revised terms of sanction. Appropriate documentation to be obtained for fresh limits sanctioned under the resolution plan including the FITL.

h) **Maintenance of MIS :**

As per the RBI Circular, bank is required to make necessary disclosures in prescribed formats is respect of accounts where resolution plan under this scheme is invoked.

Hence the operating units should maintain the necessary MIS in respect of the accounts covered under the scheme to ensure proper reporting.

Accounts restructured under this window should be marked under appropriate category in the system.

i) Grievance Redressal Mechanism :

Grievance arising out of the application for restructuring under the Resolution Framework guidelines issued by RBI may be submitted by the borrower through our website.

Grievances received through branch / SME / Zones will also be entered in the system and system will generate digital receipt for the customer.

Grievances received at branches will be escalated to the Zones/ SMEs. Zonal Incharge / SME Incharge will act as Nodal Officer. However they should keep the SCMC / Retail Credit Monitoring Cell updated.

Preliminary remarks should be provided to the customer within 72 hours by the Nodal Officer and final response should be provided within 7 working days.

Operating Units & Nodal Officers should update the CRS and should endeavour to resolve the grievance within the stipulated time-frame.

Dash-board on the status of grievances will be generated through system for regulatory reporting.