

Resolution Framework 2.0 : Resolution of COVID 19 of Individuals and Small Businesses

The following are the Gist of Policy guidelines adopted by the Bank with regard to implementation of the Resolution Framework as per the Board Approved Policy of the Bank.

Introduction

The Economic fallout on account of the COVID-19 Pandemic has led to significant financial stress to the borrowers across the board, the resultant stress of which can potentially impact the long term viability of many firms. To overcome the same and to mitigate the impact on the ultimate borrowers RBI vide its circular ref. No. DOR.NO.BP.BC/3/21.04.048/2020-21 dated 06.08.2020 (Resolution Framework – 1.0) had provided a window under the prudential framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loan while classifying such exposures as standard subject to specified conditions.

Due to the resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures to check the spread of the pandemic, recovery process is impacted and created new uncertainties.

RBI with the objective of alleviating the potential stress to individual borrowers and small businesses, have announced the following set of measures vide RBI circular ref No. DOR.STR.REC.11/21.04.048/2021-22 dated 05.05.2021 (Resolution Framework 2.0) and vide circular No.DOR.STR.REC.20/21.04.048/2021-22 dated 04.06.2021.

These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

PART “A”

RESOLUTION OF STRESS IN PERSONAL LOANS SANCTIONED TO INDIVIDUALS BORROWERS AND TO INDIVIDUALS WHO HAVE AVAILED LOANS FOR BUSINESS PURPOSES

<u>ELIGIBLE LOANS</u>	<ul style="list-style-type: none">i. The following Loans given to individuals:<ul style="list-style-type: none">a) Consumer creditb) Housing Loans and other related loansc) Education Loansd) Auto loans (other than loans for commercial use)e) All variants of Personal Loanf) Loans given for investment in financial assets (Shares, Debentures etc)ii. Individuals who have availed Loans & Advances for Business Purpose and have aggregate exposure of not more than Rs.50 Crore as on 31.03.2021.iii. 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 March 31, 2021.
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	<p>iv. Accounts under above categories was classified as Standard as on 31.03.2021.</p> <p>v. Further, the 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 bank have agreed to proceed with a resolution plan under this framework.</p>
ELIGIBLE BORROWERS	<p>Branches shall ensure that this facility is extended only in those cases where stress is on account of COVID-19 related issues like:</p> <ul style="list-style-type: none"> • Job Loss/ Reduction in Salary Income • Closure of Business • Reduction/suspension in salary during lockdown period • Closure during lockdown. • Reduced activity of units/shops/business establishments in case of self-employed professionals/ Businessmen • Other instances where income streams/cash flow of borrowers is adversely affected on account of lockdown and other COVID-19 related issues
INELIGIBLE BORROWERS	<p>The Following categories of borrowers/credit facilities shall not be eligible for a resolution plan under this framework</p> <ul style="list-style-type: none"> • MSME Borrowers whose aggregate exposure is Rs.25 Crore or less as on March 1, 2020. • Farm credit, Loans to Primary Agricultural Credit Societies (PACS), Farmers Service Societies (FSS), Large Sized Adivasi Multi – Purpose Societies (LAMPS) for on-lending to agriculture. • Loans to Primary Agricultural credit Societies (PACS), Farmers Service Societies (FSS) and Large Sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture. • Exposures of bank to financial service providers. • Exposures of bank to central and state governments, Local Government bodies (eg. Municipal Corporations) and body corporate established by an Act of Parliament or State Legislature. • Borrower Accounts who have availed resolution in terms of Resolution Framework – 1.0 subject to special exemption i.e 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, Bank can modify such plans under Resolution Framework – 2.0 only to the extent of increasing the period of moratorium/extension of residual tenor. The Overall cap on extension of residual tenor, inclusive of moratorium if any permitted shall be two years.

REFERENCE DATE	The reference date for the outstanding amount of debt that may be considered for resolution shall be 31.03.2021
DATE OF INVOCATION	<ul style="list-style-type: none"> i. The date of invocation shall be the date on which Bank conveys to the Borrower, based on the application made, that Bank, in-principle, is agreeable to implement the resolution package. ii. Resolution under this framework can be invoked not later than 30.09.2021. iii. Branches shall strive for an early invocation
TIMELINE FOR IMPLEMENTATION OF RESOLUTION PLAN (RP)	<ul style="list-style-type: none"> i. The Resolution Plan is to be implemented within maximum 90 days from the date of invocation. ii. If the above timeline is breached at any point, the resolution process ceases to apply immediately in respect of the borrower concerned. iii. Any resolution plan implemented in breach of the above stipulated timelines shall be fully governed by the extant Prudential Framework of RBI, as if the resolution process was never invoked under this framework.
SCOPE OF RESOLUTION PLAN	<ul style="list-style-type: none"> i. Moratorium upto 24 months shall be extended to borrowers whose income has been impacted. ii. Rescheduling of instalments and extension of residual tenure subject to a maximum of 2 years. (Inclusive of Moratorium) {The resolution plan shall inter alia include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, revisions in working capital sanction or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of two years.} iii. The maximum tenure prescribed for each product shall also be extended by a similar period with or without payment moratorium. For example, maximum tenor permitted for Housing Loan is 20 years which will now be extended up to 22 years. iv. The moratorium period, if granted, shall come into force immediately upon date of implementation/invocation of the resolution plan. v. Fresh repayment schedule to be generated and the revised EMI to start immediately after the moratorium period in case of all loans invoked under the said resolution plan. vi. Interest for the moratorium period may be converted into FITL, repayable within a maximum period of 3 years. vii. In all the steps enumerated above, the repayment period shall/ can be extended only upto a maximum of 2 years. viii. While deciding upon the period of moratorium and/or rescheduling of repayment period, impact of the regulatory moratorium, if availed, on total tenure of the loan shall be considered

	<p><u>Borrower having only Working Capital</u></p> <ol style="list-style-type: none"> i. Need based additional funding in the form of WCDL or WCTL may be considered. The additional funding requirements shall be arrived at based on cash budget based assessment. The repayment period for any such additional funding sanctioned as part of the relief package under this framework shall not exceed 7 years. ii. Interest moratorium of up to 2 years may be considered for WCDL or WCTL. Interest for the moratorium period may be converted into FITL, repayable within a maximum period of 3 years. iii. Any Irregular portion in the account may be converted into WCTL repayable in maximum period of 3 years.
<p>IMPLEMENTATION CONDITIONS FOR RESOLUTION PLAN</p>	<p>The resolution plan shall be deemed to be implemented only if all of the following conditions are met:</p> <ol style="list-style-type: none"> i. All related documentation, including execution of necessary agreements between the Bank and the borrower and creation of charge on collaterals provided, if any, are completed in consonance with the resolution plan being implemented. ii. Necessary documentation shall be executed in consultation with Legal & Documentation department. iii. Any resolution plan implemented in breach of the above stipulated timeline shall be fully governed by the Prudential Framework.
<p>ASSET CLASSIFICATION</p>	<ul style="list-style-type: none"> • The asset classification of borrowers' accounts classified as 'Standard' will be retained as such upon implementation under the Framework. • The accounts which may have slipped into NPA between invocation and implementation may also be upgraded as "Standard", as on the date of implementation of the plan. • If additional plan/ finance is sanctioned even before implementation of plan in order to meet the interim liquidity requirements it may be classified as standard asset till implementation of plan regardless of actual performance of the borrower with respect to such facilities in the interim. • If resolution plan is not implemented within stipulated timelines the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to the additional finance or the rest of the credit facilities, whichever is worse.

**CONVERGENCE OF THE
NORMS FOR LOANS
RESOLVED PREVIOUSLY**

- i. In cases of loans of borrowers as specified above 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, the said plans can be modified under this framework only to the extent of increasing the period of moratorium / extension of residual tenor subject to the caps in Clause 4 (F) above, 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.
- ii. The Timelines specified i.e Last Date of Invocation – September 30, 2021 and the resolution plan to be finalised and implemented within 90 days from the date of invocation of the resolution process under this resolution framework shall be followed.
- iii. For loans where modifications are implemented in line with above clauses, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0

OTHER GUIDELINES

- i. A unit maybe regarded as viable, if it would be in a position, after implementing a relief package spread over a period not exceeding two years from the commencement of the package, as may be necessary, to continue to service its repayment obligations as agreed in the package without the help of the concessions after the aforesaid period.
- ii. The need based additional finance to be arrived at based on actual shortfall in revenues vis-à-vis projections. Minimum Promoter's Contribution (capital infusion) of 10-15% of the additional finance sanctioned to be brought in.
- iii. Any out of Pocket expenses like Stamping, inspection, valuation etc is to be borne by the borrowers.

	<p>iv. Right of recompense shall be stipulated in the relief package.</p> <p>v. In case of unlisted entities, Personal Guarantee of the promoters for the additional credit facilities to be mandatorily obtained.</p>
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PART B

<p>WORKING CAPITAL SUPPORT FOR SMALL BUSINESS RESOLUTION PLANS WERE IMPLEMENTED PREVIOUSLY.</p>	<p>In respect of borrowers i.e Individuals who have availed Loans and Advances for Business purposes and Small Businesses including those engaged in retail and wholesale trade other than those classified as MSME as on 31.03.2021 with aggregate exposure of not more than Rs. 50 Crore as on 31.03.2021 where resolution plans had been implemented in terms of the Resolution Framework – 1.0 as a onetime measure Bank shall...</p> <ul style="list-style-type: none"> • Review the sanctioned working capital 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 by September 30, 2021. • In respect of working capital facilities sanctioned in the form of Cashcredit/Overdraft (CC/OD) to borrowers facing stress on account of the economic fallout of the pandemic, Bank shall re-calculate the “drawing power “ by reducing the margins/re-assessing the limits as a onetime measure. • The margins and working capital limits shall be restored to the levels as per the resolution plan implemented under Resolution Framework by March 31, 2022.
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PART “C”

<p>GRIEVANCE REDRESSAL MECHANISM</p>	<p>Grievance arising out of the application for restructuring under the Resolution Framework guidelines issued by RBI may be submitted by the borrower through the bank’s website.</p> <p>Final Response to the grievances raised by the borrower shall be provided within 10 working days.</p>
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Resolution Plan submitted by the borrower should factor financial parameters as per the bank's credit policy

Bank shall call for additional information, documents and/or additional collateral on case to case basis and borrower to also provide the remedial measures proposed for reinstatement of business and the timelines during which the viability milestones such as improvement in financial ratios shall be achieved, introduction of additional funds in the business by the promoters, sale of non core assets among others

Financial Parameters: In view of the resurgence of Covid-19 pandemic in 2021 and recognising the difficulties face by the borrowers in meeting the operational parameters, RBI vide Circular Ref No. DOR.STR.REC.38/21.04.048/2021-22 August 6, 2021 has deferred the target date for meeting the specified thresholds in respect of the four operational parameters, viz. Total Debt / EBIDTA, Current Ratio, DSCR and ADSCR, to October 1, 2022.

The target date for achieving the ratio TOL/ATNW, as crystallised in terms of the resolution plan, shall remain unchanged as March 31, 2022.

Note: Above Information is a gist of the Resolution Framework 2.0 implemented by Bank for COVID 19 related stress of Individuals and Small Business which are subject to RBI/Bank's guidelines in the matter. Customers are requested to contact their branch for further details.