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Resolution Framework 2.0 for COVID-19 related stress – Guidelines

Background

In the backdrop of economic disruptions caused by the second wave of infections due to COVID-19, RBI on May 05, 2021, has issued two circulars with respect to:

a) Resolution of COVID-19 related stress of Individuals and Small Businesses, and
b) Resolution of COVID-19 related stress of MSMEs

The key features of the circulars are as under:

A. For Individuals and Small Businesses:

I. Eligibility:

1. Individuals who have availed of personal loans {as defined in the RBI Circular dated Jan 04, 2018 on "XBRL Returns – Harmonisation of Banking Statistics" and which includes products such as consumer credit, including Credit Card outstanding, Education Loan, loans given for creation/enhancement of immovable assets (e.g., housing, etc.), and loans given for investment in financial assets (shares, debentures, etc.), excluding the credit facilities granted to their own personnel/staff.

2. "Individuals" who have availed loans for business purposes and entities engaged in "Small businesses, other than those classified as MSMEs" having aggregate exposure of not more than ₹250.0 million as on Mar 31, 2021.

3. The credit facilities/investment exposure to the borrower was classified as Standard by the lending institution as on Mar 31, 2021.

4. The following are **not eligible** under the proposed Resolution Framework:

    a. Borrowers who have availed of any resolution in terms of the Resolution Framework (RF) 1.0, except those mentioned in point 5.c below.

    b. Borrowers belonging to the following categories: Farm Credits (e.g., Crop Loans, Loans under Kisan Credit Card scheme etc.), Loans to Primary Agricultural Co-operative Societies, Large-sized Adivasi Multipurpose Societies, etc. and as clarified by RBI through guidelines/FAQs.

5. **Resolution Plan (RP):** The key features of the RP are as under:

    a. Resolution under this framework may be invoked not later than Sep 30, 2021 and must be implemented within 90 days from the date of invocation.

    b. The RPs implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, 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 an RP for this purpose.

c. Borrowers who have availed no moratoria or moratoria of less than two years and/or extension of residual tenor by a period of less than two years under RF 1.0 or any borrower who approaches for resolution under RF 2.0 would be eligible for the following, under the proposed resolution framework:
   - Avail/increase the moratorium to a maximum period of two years
   - Extension of residual tenure by a maximum period of two years

II. Working capital support for small businesses where Resolution Plans (RPs) were implemented under RF 1.0

The lending institutions, may as a one-time measure be permitted 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 Sep 30, 2021, with the margins and working capital limits being restored to the levels as per the RP implemented under RF 1.0, by Mar 31, 2022.

III. Others:

1. If an RP is implemented in adherence to the provisions of this policy, the asset classification may be retained as standard, including those accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard.

2. 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% 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.

3. Half of the above provisions may be written back upon the borrower paying at least 20% 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% 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.

4. 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 an RP had been implemented, is subsequently classified as NPA.

5. 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 RP is not implemented within the stipulated timeline, 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.

6. The Board approved policy shall be sufficiently publicised and should be available on the website of the lending institutions in an easily accessible manner.

7. The Bank to put up a system for redressing the grievance of borrowers who request for resolution.

B. <u>For MSME:</u>

Existing loans (having aggregate exposure to all lending institutions not exceeding Rs 250.0 million) to MSMEs may be restructured without a downgrade in the asset classification, subject to the following conditions:

1) **Eligibility:**

a. The borrower should be classified as an MSME as on Mar 31, 2021 in terms of the Gazette Notification dated Jun 26, 2020 and registered with GST on the date of implementation of the restructuring (will not apply to MSMEs that are exempt from GST-registration). The MSME borrower should be classified as 'standard' as on Mar 31, 2021.

b. The borrower’s account was not restructured in terms of the RBI circulars dated Aug 06, 2020, Feb 11, 2020; or dated Jan 01, 2019 (collectively referred to as MSME restructuring circulars).

c. The restructuring of the borrower account is invoked by Sep 30, 2021 and is implemented within 90 days from the date of invocation.

d. Borrower is registered in the Udyam Registration portal (such registration is mandatory before the date of implementation of the restructuring plan).

e. All other instructions specified in the circular dated Aug 06, 2020 shall continue to remain applicable.

2) **Others:**

a. The asset classification of borrowers classified as NPA category between Apr 01, 2021 and date of implementation may be upgraded as ‘standard asset’, as on the date of implementation of the restructuring plan.

b. In respect of accounts of borrowers which were restructured in terms of the MSME restructuring circulars, as a one-time measure, the lending institutions can 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 Sep 30, 2021. The reassessed sanctioned limit/drawing power shall be subject to review by the lending institution 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.

c. Upon implementation of the restructuring plan, the lending institutions shall keep provision of 10% of the residual debt of the borrower.

Common points applicable for both guidelines mentioned in Para "A" & "B"

1. The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19.

2. 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. The resolution process under this window shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalising an RP to be implemented in respect of such borrower. In respect of applications received by the lending institutions from their customers for invoking resolution process under this window, the assessment of eligibility for resolution as per the instructions contained in this circular and the Board approved policy put in place as above shall be completed, and 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.

Bank Guidelines

In line with the extant RBI guidelines, the Bank will adopt the following key criteria for resolution of stressed assets for individuals/small businesses and MSMEs impacted due to the second wave of COVID-19. The Bank would exercise its discretion of granting RPs and/or working capital support for small businesses/individuals/MSMEs based on the broad contours laid down below. The Borrowers which are classified/reported as RFA/fraud/willful defaulter by the Bank and/or other lenders would not be eligible for resolution under the proposed framework.

A. INDIVIDUALS AND SMALL BUSINESS

A.1. Resolution Plans (RPs)

The eligible borrowers (as permitted by RBI) should have been impacted by pandemic COVID-19, which *inter alia* includes any of the following indicative criteria which has impacted borrower's ability to service the loan in time:

- Salary/income decline (including family members)
- Job losses (including family members)
- Extraordinary expenses incurred including hospitalisation expenses
- Individuals and small businesses engaged in COVID-19 impacted sectors/industries/ geographies, etc.

<u>A.2. Working capital support for small businesses where RPs were granted earlier in terms of RF 1.0</u>

- The working capital assessment would be based on criteria such as turnover, working capital cycle, margin, etc.
- The decision with regard to working capital support for small businesses shall be taken by Sep 30, 2021, or as amended by RBI from time to time, with the margins and working capital limits being restored to the levels as per the RP implemented under RF 1.0, by Mar 31, 2022 (or as amended by RBI from time to time)

B. MICRO, SMALL AND MEDIUM ENTERPRISES

a) The eligibility, based on impact of COVID-19, would be checked for the affected borrowers on basis of indicative criteria such as:
   - Impact of COVID-19 on the sector in which the borrower operates
   - Decline in income/profitability/ cash flows, etc. of the borrower
   - Increase in inventory/receivable position of the borrower

   The restructuring plan is invoked by Sep 30, 2021, or as amended by RBI from time to time.

b) 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.