

Summary on Policy on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses

PART A: Resolution of advances to individuals and small businesses

(I) Eligible Borrowers:

- a) Individuals who have availed personal loans excluding credit facilities extended to own staff.
- b) Individuals who have availed of loans and advances for business purposes and to whom the aggregate exposure from all lending institutions is not more than Rs. 50 crores 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 aggregate exposure from all lending institutions is not more than Rs. 50 crores as on March 31, 2021.

Note: In case of point b) and c) above, loans to agriculture allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture shall be eligible.

Eligible borrowers from point no “a” to “c” above,

- ❖ should not have availed of any resolution in terms of the Resolution Framework – 1.0 (RBI circular dated 06.08.2020):

(II) Criteria for arriving at eligibility for Individuals who have availed personal loans excluding credit facilities extended to own staff.

- a) Stress pertaining to Covid-19 can be ascertained from the following:
 - ✓ If there is a partial/ full deferment/ reduction of monthly salary/ ies by the employer covering the period starting from February 2020 till date of request. (For Example: Salary of Pre-Covid and Post-Covid to be compared).
 - ✓ If there is a loss of employment due to Covid-19.
 - ✓ If there is total/ partial shutdown of business and revenue generation is hit due to Covid-19.
 - ✓ **If the customer or his/ her family member has been affected with Covid-19 and the cash flows have been affected. Documentary evidence of infection/ hospitalization, if any to be obtained.**
- b) The above stress can be established by the borrower while concurring to Resolution Framework for Covid-19 related stress by any of the following documentary evidence:

- ✓ Letter from employer evidencing partial/ full deferment/ reduction of salary.
 - ✓ Termination Letter.
 - ✓ Any Statutory Returns/ Evidence for showing shutdown/ loss of business.
 - ✓ Undertaking to the satisfaction of bank.
- c) The resolution plans may *inter alia* include:
- ✓ Rescheduling of payments i.e., extension of residual tenor,
 - ✓ Granting of moratorium, based on an assessment of income streams of the borrower.
 - ✓ Residual Tenor extension/ granting of moratorium should not be more than 2 years.
 - ✓ Conversion of any interest accrued, or to be accrued, into another credit facility.
- d) Selection of resolution plan as above will depend on the assessment to be made with respect to the present and future income of the borrower.

(III) Criteria for arriving at eligibility for Individuals who have availed of loans and advances for business purposes/ 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 as per point “(I) b & c” above.

- a)** Following are some tools to ascertain Covid related stress (The list is indicative and not exhaustive. Any other disruption having substantial evidence may be considered to the satisfaction of the sanctioning authority):
- ✓ Comparison of GST returns of the borrower (Pre-Covid and latest GST returns available as on date of invocation of the resolution plan. The latest GST return should be of Covid Period)
 - ✓ Less transactions (Both in terms of value and number) in the CC accounts compared to Pre-Covid times.
 - ✓ There is total/ partial shutdown of business. The same should be supported by statutory returns/ evidence.
 - ✓ If following changes happens in business due to Covid-19 disruption which were not visible earlier:
 - i. Cancellation of orders in hand evidenced by correspondences from clients / vendors. This impact is observed more for export-oriented borrowers.
 - ii. Delay in realization of debtors resulting in accumulation of receivables. The same shall be substantiated by a CA certificate on age-wise classification of the receivables.
 - iii. Increase in the holding period of Raw materials, Work in progress, finished goods.

- iv. Increase in Trade payables. Increase in the holding levels of creditors.
- v. Non-availability or delay in supply of raw materials.
- vi. Non-availability of labor.

b) Restructuring would normally involve:

- ✓ Modification of terms of the advances/ securities, which may include, among others, alteration of repayment period/ repayable amount/ the amount of installments/ rate of interest. Conversion of any interest accrued or to be accrued into another credit facility.
- ✓ Roll over of credit facilities
- ✓ Sanction of additional credit facilities
- ✓ Enhancement of existing credit limits
- ✓ Revisions in working capital sanctions

Selection of the resolution plan shall be based on assessment of cash flow of the borrower.

- (IV) 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 a resolution plan to be implemented in respect of such borrower.**
- (V) The decision to invoke the resolution process for our exposure to the eligible borrower under this framework shall be taken by the sanctioning authority independent of invocation decisions taken by other lending institutions, if any, having the exposure to the same borrower.**
- (VI) The last date for invocation of resolution permitted under this window is 30.09.2021.**
- (VII) Compromise settlements are not permitted as a resolution plan for this purpose.**
- (VIII) 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.**
- (IX) 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.**

(X) 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 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 branches 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 i.e., Finacle Master is modified accordingly; and,
- c) Borrower is not in default as per the revised terms.

In cases wherever creation of security charge etc. is not possible due to Covid-19 pandemic, customers will be provided with 6 months' time for completing the same as a special case due to pandemic situation on account of Covid-19.

(XI) Eligible Borrower accounts as per PART A Point (I) "a" to "c" shall not belong to the following categories:

- a) MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs. 25 crore or less as on March 1, 2020.
- b) Farm credit (except for loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture) as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated).
- 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 to financial service providers.
- e) Exposures to Central and State Governments; Local Government bodies (e.g., Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

PART B: Working capital support for small businesses where resolution plans were implemented previously

(I) In respect of the borrowers specified in PART A Point (I) (b) and (c) where resolution plans had been implemented in terms of the Resolution Framework – 1.0, sanctioning authorities are permitted, as a one-time measure the following:

- a) To review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle,
- b) reduction of margins, etc.

(II) The above measures shall be contingent on the Branch/ sanctioning authorities satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.
