



دي نوجيون ڪو آپريٽو بئنڪ لميٽيڊ

NAV JEEVAN CO-OP. BANK LTD.

Head Office: Bhawani Saw Mills Compound, Ulhasnagar-421 003.

Date: 15.05.2021

Board Note

Resolution Framework 2.0 – Covid-19 related stress of Individuals and Small Businesses & MSMEs

The Reserve Bank of India vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on "Resolution Framework for COVID-19-related Stress" ("**Resolution Framework - 1.0**") had provided a window to enable banks to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions.

Accordingly a Resolution Framework for COVID-19 related stress was approved by Board on 31.08.2020 (Copy enclosed).

The resurgence of Covid-19 pandemic in India in the recent weeks and the consequent containment measures to check the spread of the pandemic may impact the recovery process and create new uncertainties. With the objective of alleviating the potential stress to individual borrowers and small businesses, the following set of measures are being announced. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

For Individuals & Small Businesses:-

A. Resolution of advances to individuals and small businesses

1. Banks are permitted to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan subject to the conditions specified hereafter.

Eligibility:

- 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 the bank to their own personnel/staff.
- b. Individuals who have availed of loans and advances for business purposes and to whom the bank/s have aggregate exposure of not more than Rs.25 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 bank/s have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

Invocation of resolution process:

- a. The bank has to ensure that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19.
- b. The last date for invocation of resolution permitted under this window is September 30, 2021.

Permitted features of resolution plans and implementation

- a. 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.**
- b. 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.
- c. 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.
- d. The resolution plan should be finalized 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 (as under) are met :-
 - i) All related documentation, including execution of necessary agreements between the banks and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution plan being implemented.
 - ii) The changes in the terms of conditions of the loans get duly reflected in the books of the bank; and
 - iii) Borrower is not in default with the bank as per revised terms.

Asset classification and provisioning:

- a) If a resolution plan is implemented, the asset classification of borrowers' accounts classified as Standard to be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation to be upgraded as Standard, as on the date of implementation of the resolution plan.
- b) 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 banks ("extant IRAC norms").
- c) 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.

- d) The bank has to 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 bank 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.
- e) Half of the above provisions to 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 to 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.
- f) 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.

Convergence of the norms for loans resolved previously :

- a) In cases of loans of borrowers specified under eligibility column 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, bank is 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 not more than 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.*
- b) The instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework - 1.0.

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

- a) In respect of borrowers where resolution plans had been implemented in terms of the Resolution Framework - 1.0, bank 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 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.
- b) The above measures shall be contingent on the bank satisfying itself 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.
- c) Bank need to disclose the resolution in the public domain and place on their websites in a prominent and easily accessible manner.

C. Disclosures and Credit Reporting

- a) Bank needs to be disclosed required as per Format-B prescribed in the Resolution Framework - 1.0.
- b) The bank is required to publish in annual financial statements, the required disclosures along with other prescribed disclosures.
- c) The credit reporting by the bank lending institutions in respect of borrowers where the resolution plan is implemented under Part A of this window shall reflect the "restructured due to COVID-19" status¹ 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.

For MSMEs :-

In view of the uncertainties created by the resurgence of the Covid-19 pandemic in India in the recent weeks, RBI has decided to extend the above facility for restructuring existing loans without a downgrade in the asset classification subject to the following conditions:

- i) The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021.
- ii) The borrowing entity should be 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 to be invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when the bank and the borrower agree to proceed with the efforts towards finalizing a restructuring plan to be implemented in respect of such borrower.
- vii) The decisions on applications received by the bank from their customers for invoking restructuring under this facility to be communicated in writing to the applicant by the bank within 30 days of receipt of such applications.
- viii) The decision to invoke the restructuring under this facility to be taken by the bank having exposure to a borrower independent of invocation decisions taken by other bank, if any, having exposure to the same borrower.
- ix) The restructuring of the borrower account is implemented within 90 days from the date of invocation.
- x) 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.
- xi) **Upon implementation of the restructuring plan, the bank shall keep provision of 10 percent of the residual debt of the borrower.**

- xii) It is reiterated that lending institutions shall put in place a Board approved policy on restructuring of MSME advances under these instructions at the earliest, and in any case not later than a month from the date of this circular.
- xiii) 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 implemented as above, asset classification of borrowers classified as standard to be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation to 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, 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.

The decision with regard to above to be taken by the bank by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review by the bank 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.

The above measures shall be contingent on the bank satisfying itself 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.

Considering the restructuring process will be time bound and bank has to convey the decision to the applicant within 30 days from receipt of application for restructuring, we suggest to delegate the Sanctioning Powers to Hon'ble Chairman on recommendation by MD-CEO, subsequently to be ratified in Loan Committee / Board Meeting.