The Janatha Co-operative Bank Ltd, Bengaluru

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

1. Important Definitions

1.1 A restructured account

It is one where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower, concessions that the bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount/ the amount of instalments / rate of interest (due to reasons other than competitive reasons). However, extension in repayment tenure of a floating rate loan on reset of interest rate, so as to keep the equated monthly instalment (EMI) unchanged, provided it is applied to a class of accounts uniformly, will not render the account to be classified as 'Restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, would render the accounts to be classified as 'restructured accounts'.

In simple terms, we can say that when a loan account is restructured, a new loan replaces the outstanding balance on the account being restructured and such loans are paid over a longer period usually with a lower instalment amount to accommodate a borrower in financial difficulty.

1.2 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.).

1.3 Consumer credit

It 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 loans, (b) loans given for creation/ 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 KCC. For risk weighting purposes under the Capital Adequacy Framework, the extant regulatory guidelines will be applicable.

1.4 Real Sector

The real sector of an economy is the key section as activities of this sector persuade economic output and is represented by those economic segments that are essential for the progress of GDP of the economy. The real sector of an economy means, the sectors that produce goods and services.

1.5 **Moratorium period**

A moratorium period is a time during the loan term when the borrower is not required to make any repayment. It is a waiting period before which repayment by way of EMIs begins. Normally, the repayment begins after the loan is disbursed and the payments have to be made each month.

1.6 **Retail Banking**

One of the prominent features of Retail Banking products is that it is a volume driven business. Further, Retail Credit ensures that the business is widely dispersed among a large customer base unlike in the case of corporate lending, where the risk may be concentrated on a selected few plans. Ability of a bank to administer a large portfolio of retail credit products depends upon such factors. Retail banking refers to the dealing banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed/current/saving accounts on the liabilities side, and mortgages loans (e.g., personal, housing, auto and educational on the assets side, are the important products offered by banks.

1.7 **Rescheduling of Debt**

Debt rescheduling refers to restructuring the terms of an existing loan. The debt can be rescheduled as follows:

Reduce payment amounts by extending the payment period and increasing the number of payments. Pause payments or reduce payment amounts during a given period and then increase the amount of the monthly instalments.

1.8 **Stressed Assets.**

Stressed assets are powerful index of the health of the banking system. Stressed assets are typically the combination of the non-performing assets, restructured loans and written off assets. Stressed Assets generally face the issue of decrease in value due to market volatility and increase in default rates. The ongoing pandemic has resulted into large scale market instability and this may result in many Stressed Assets.

1.9 **Residual debt.**

Borrowed loans usually have a specific, contractually agreed, term. After this period has expired, it may be that the borrowed amount has not been fully repaid to the bank. This difference between the loan amount and the repayment amount is called residual debt.

2. Introduction

As the bank is aware that 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 lenders 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.

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, RBI vide its circular DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021 has announced a Resolution framework-2 for Covid-19 related stress of Individuals and Small Businesses.

3. Requirements specific to resolution of advances to individuals and small businesses

- **a.** The details of requirements specific to resolution of advances to individuals and small businesses is mentioned in **Part-'A'** of the policy
- **b.** Working Capital Support to individuals who have availed of loans for business purposes, and Small businesses, where resolution plans were implemented previously. The details of requirements specific to resolution of advances under this category has been mentioned in **Part-'B'** of the policy.

4. Disclosure requirement

Lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented under this window are mentioned in **Part-'C'** of the policy

Part-'A' - Resolution of advances to individuals and small businesses

5. UCBs 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.

6. 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. Definition of personal loan has been mentioned in para 1(ii and iii) above.
- **b.** Who have availed of loans and advances for business purposes and to whom the lending institutions 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 lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

7. Non applicability of guideline

7.1 These guidelines will not be applicable to the borrower accounts / credit facilities to MSME borrowers whose aggregate exposure to lending institution collectively, is ₹25 crore or less as on March 31, 2021.

7.2 These guidelines will not be applicable to the borrower who has availed resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at para 12.1 below.

7.3 These guidelines will not be applicable to the borrower whose credit facilities / investment exposure was not classified as Standard by the lending institution as on March 31, 2021.

8. Any resolution plan implemented in breach of the stipulations of this circular shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 ("Prudential Framework"), or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

9. Invocation of resolution process

i. The bank shall frame Board approved policies at the earliest (but not later than four weeks from the date of this Circular), pertaining to implementation of viable resolution plans for eligible borrowers under this framework
ii. Bank should ensure that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19.
iii. The Board approved policy shall, inter alia, detail the eligibility of borrowers in respect of whom the lending institutions shall be willing to consider the resolution, and shall lay down the due diligence considerations to be followed by the bank. The Board approved policy shall be sufficiently publicised and should be available on the website of the lending institutions in an easily accessible manner.

9.1 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 a resolution plan 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**.

9.2 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.

9.3 .The last date for invocation of resolution permitted under this window is **September 30, 2021.**

10. Permitted features of resolution plans and implementation

i. 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.**

ii. 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.**

iii. 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.

iv. 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 conditions in Paragraph 10 of the Annex to the Resolution Framework – 1.0 are met.(**mentioned below for ready reference**)

a. all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned 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 lending institutions; and,

c. Borrower is not in default with the lending institution as per the revised terms.

11. Asset classification and provisioning

11.1 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.

11.2 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”).

11.3 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 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.

11.4. 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 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.

11.5. 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.

11.6. 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.

12. Convergence of the norms for loans resolved previously

12.1 In cases of loans of borrowers specified in para 6 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, lending institutions are 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 the caps in para 10 (ii) 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.**

12.2. This modification shall also follow the timelines specified in para 9, 9.3 and 10(iv) above. For loans where modifications are implemented in line with para 12 (i) above, 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

13. In respect of borrowers specified at sub-clauses (b) and (c) of para 6 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, lending institutions are 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 lending institutions 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.

14. 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**. 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.

15. Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures, which should be disclosed in the public domain and placed on their websites in a prominent and easily accessible manner.

Part-'C'. Disclosures and Credit Reporting

16. Lending institutions that are required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures as per Format-X.

17. 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 COVID-19 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.

Synopsis of the Scheme of Resolution frame work-2 for COVID-19 –Stressed assets

18. The main points and highlights of the Resolution framework -2 are as under

i. With the objective of alleviating the potential stress to individual borrowers and small businesses, RBI vide its circular DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021 has announced a Resolution framework-2 for Covid-19 related stress of Individuals and Small Businesses.

ii. The bank shall frame Board approved policies pertaining to implementation of viable resolution plans for eligible borrowers under this framework, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid19.

iii. The following type of borrowers shall be eligible for resolution framework.2

a. Individuals who have availed of personal loans
b. Who have availed of loans and advances for business purposes and to whom the lending institutions 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 lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

iv. These guidelines will not be applicable to the borrower who has availed resolution in terms of the Resolution Framework – 1.0 subject to the special exemption mentioned at para 12.1 of the policy

v. 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.**

vi. 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.**

vii. The **reference date** for the outstanding amount of debt that may be considered for resolution shall be March 31, 2021

viii. The bank shall ensure that the resolution under this facility is **extended only to borrowers having stress on account of Covid-19.**

ix. Only those borrower accounts shall be eligible for resolution under this framework which were classified as standard as on March 31, 2021.

x. Resolution under this framework may be invoked not later than **September 30, 2021** and must be implemented **within 90** days from the date of invocation. However, the bank should strive for early invocation. T**he decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications**.

xi. The resolution plan shall be deemed to be implemented only if all the **mentioned below are met.**

a. all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned 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 lending institutions; and,

c. Borrower is not in default with the lending institution as per the revised terms.

xii. The eligible borrowers' 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.

xiii. 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.

19. Examples for implementation of RF-2 for Covid-19 related stress of Individuals and Small Businesses.

Example-I

Let we take a hypothetical case of a housing loan sanctioned to a borrower-'X'

i. Date of sanction of loan- 1.1.2018
ii. Tenure of the loan-10 Years i.e up to 31.12.2027
iii. Number of installments payable -120
iv. Total installments paid till 31.3.2021- 39
v. Account is standard (No overdue) as on 31.3.2021
vi. No EMI paid after 31.3.2021
vii. In normal course the account shall become NPA under sub-standard category as on 31.7.2021
viii. Resolution Plan invoked on 1.8.2021 and implemented on 1.10.2021
ix. Account will be treated as Standard from 31.3.2021 to 1.10.2021.
x. Bank has to go for fresh documentation and agreements.
xi. The restructured account detail should reflect in the books of the bank.
xii. Resolution plan (RF) implemented from 1.10.2021 which entails restructuring of the residual loan as on 31.3.2021 by extending the tenure of residual tenure by two years i.e up to 31.12.2029. Also moratorium of period of one year allowed from the date of implementation i.e 1.10.2021. It means the moratorium period will end on 30.09.2022. The restructured installments will be loaded with the interest accrued up to the date of implementation of RF or till moratorium period whichever is later and to be recovered with in the extended tenure of the loan.
xiii. The residual loan amount has to be recovered in revised EMI during residual period from 1.10.2022 to 31.12.2029
xiv. If any amount payable during the restructured residual period ,becomes overdue for more than 90 days, the account will be classified NPA as per extant IRAC norms

Example-II

Let we take a hypothetical case of term loan to an Individual borrower 'Y'

i. Date of sanction of loan- 15.1.2015.Tenure of the loan-10 Years i.e up to 15.1.2025.Number of installments payable -120.
ii. Installments paid regularly till 15.12.2020.

iii. Number of installments paid till 15.12.2020------71.
iv. No installment paid after 15.12.2020.
v. Next instalment due on 15.1.2021.
vi. In normal course the account will become NPA under Sub-standard category as on 15.4.2021
vii. Account is standard as on 31.3.2021, but irregular.
viii. Resolution Plan invoked on 15.8.2021 and implemented from 15.10.2021
ix. Account will be treated as Standard from 31.3.2021 to 15.10.2021.
x. Bank has to go for fresh documentation and agreements.
xi. The restructured account detail should reflect in the books of the bank.
xii. Resolution plan (RF) implemented from 15.10.2021 which entails restructuring of the residual loan as on 31.3.2021 by extending the tenure of loan by two years i.e up to 15.01.2027. Also moratorium of period of one year allowed with effect from date of implementation i.e 15.10.2021. It means the moratorium period will end on 14.10.2022. The restructured installments will be loaded with the interest accrued up to the date of implementation of RF or till moratorium period whichever is later and to be recovered with in the extended tenure of the loan.
xiii. The residual loan amount has to be recovered in revised EMI during residual period from 15.10.2022 to 15.1.2027.
xiv. If any amount payable during the restructured period (excluding moratorium), becomes overdue for more than 90 days, the account will be classified NPA as per IRAC norms

<u>Format – X</u>

Format for disclosures to be made as on 31.3.2022

Sl. No	Description	Individual Borrowers		Small businesses
		Personal Loans	Business Loans	
(A)	Number of requests received for invoking resolution process under Part A			
(B)	Number of accounts where resolution plan has been implemented under this window			
(C)	Exposure to accounts mentioned at (B) before implementation of the plan			
(D)	Of (C), aggregate amount of debt that was converted into other securities			
(E)	Additional funding sanctioned, if any, including between invocation of the plan and implementation			
(F)	Increase in provisions on account of the implementation of the resolution plan			