

FAQ on Resolution Framework for Covid-19 Related Stress

1. What type of borrowers are eligible under the Resolution Framework?

- Borrowers having stress on account of Covid-19
- Accounts classified as Standard, and not in default for more than 30 days with the Bank as on 01.03.2020 (with any lending institution in case of other than personal loans)
- The accounts should continue to remain standard till the date of invocation of resolution under this framework.
- The due diligence/ the process for identification of stress to be followed by the branches/ offices to establish the necessity of implementing a resolution plan.

2. Are MSME units eligible under the scheme?

MSME units with aggregate exposure of Above Rs 25.00 crore as on 01.03.2020 to all lending institutions are eligible under Resolution Framework. Below Rs.25 crore are covered under existing MSME one-time restructuring guidelines extended by RBI vide circular dated August 06, 2020.

3. Whether borrowers not registered under GST will be eligible for one-time MSME restructuring?

The borrower entity should be GST registered on the date of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST registration.

4. What kind of personal loans would be covered under the Covid-19 restructuring window? Would it be applicable to car loans/ education loans, etc.?

All loans for personal/consumption purpose i.e. auto loan (other than loans for commercial use), personal loans secured by gold, gold jewellery, immovable property, fixed deposits, shares and bonds, etc., (other than for business / commercial purposes), education loan, housing loan.

5. Who are not eligible borrowers for resolution plan under this framework?

Lending Institutions to financials Service Providers (NBFCs), Lending institutions to Central and State governments, Local government Bodies, Body corporates established by act of Parliament and Housing Finance Companies.

6. Under what circumstances or with what underlying motive is the Resolution framework applicable?

- a. Any borrower, whose ability to service loan/credit facilities has been affected because of the COVID disruption may be covered by the Framework.
- b. Borrowers have to submit specific reason for disruption due to covid.
- c. Those who had credit weakness/deterioration in credit prior to the beginning of the crisis will not be eligible under this scheme however they may be restructured under the Prudential Framework guidelines which entails downgradation as part of loan reconstruction process.

7. Whether processing/ other charges are applicable for the borrowers who opt for the Resolution Plan?

Nil processing fees. However, all other applicable charges (out of pocket expenses) to be collected as per extant guidelines. In case additional funding is involved as part of resolution plan, processing charges will be as per existing norms.

8. Whom to approach for availing relief under the package?

Concerned branch from where existing facilities are availed.

9. Is it applicable to both term loans as well as working capital facilities?

Yes.

10. Borrowers who did not avail the moratorium benefits, will they be eligible?

Yes, if all the remaining conditions are fulfilled and they are able to demonstrate stress on account of covid.

11. When to approach the Banks for restructuring of loans?

The resolution under this framework is to be invoked not later than 31.12.2020. Hence borrowers must approach the lenders early to enable them to take a decision and frame the resolution package.

12. What is a Resolution Plan

Resolution Plan is a modification in terms of the loan so as to make the loan serviceable. It may include:

- capitalization of interest
- allowing extension of the residual tenor of the loan by period not more than 2 years with or without moratorium;
- sanctioning of additional credit facilities if found necessary to address financial stress;
- change in terms of security
- infusion of capital by the borrower
- conversion of debt into instruments such as equity, debentures etc.

13. What are the benefits of restructuring?

Based on the Techno-Economic viability of the unit, Restructuring process normally involves modification of terms of the advance which would generally include amongst others alteration of repayment period, Rephasing / Rescheduling the repayment in case of an outstanding term loan with or without change in balance repayment period/ installments, Rescheduling the payment of interest outstanding, Fresh finance, if envisaged as per restructuring plan.

14. What is the meaning of “invocation” of a Resolution Plan (RP)?

Personal loans:- The borrower and lender should agree to proceed with RP. The date on which the borrower and lender agree to proceed with the RP shall be the date of “invocation”.

Other Loans:- If there are multiple lending institutions with exposure to the borrower, the resolution process shall be treated as invoked in respect of any borrower if lending institutions representing 75 per cent by value of the total outstanding credit facilities (fund based as well non fund based) and not less than 60 per cent of lending institutions by number agree to invoke the same.

15. When will the Resolution process be treated as lapsed?

In cases where the resolution process has been invoked but lending institutions representing not less than 75 per cent by value of the total outstanding credit facilities (fund based as well non-fund based) and not less than 60 per cent of lending institutions by number, do not sign the ICA within 30 days from the invocation, the invocation will be treated as lapsed. In respect of such borrowers, the resolution process cannot be invoked again under this framework. Further if the resolution plan is not implemented within 90 days (For personal loans)/ 180days (Other Loans) of invocation, it shall be governed by the Prudential Framework.

16. One of the measures is providing a moratorium on loan repayment. Will this moratorium be a part of the existing moratorium facility provided to borrowers?

The resolution framework notification provides that in cases where moratorium is granted to eligible borrowers, such moratorium shall be subject to a ceiling of 2 years. It is to be noted that the resolution under this framework is independent of any moratorium or other relief provided to the borrowers under other frameworks introduced by the RBI. Hence, the above-mentioned period of 2 years shall be in addition to the earlier moratorium (Pre Covid and related to Covid regulatory forbearance from 1st March to August 31, 2020) granted to the borrowers. The earlier moratorium is not to be included in this period of 2 years.

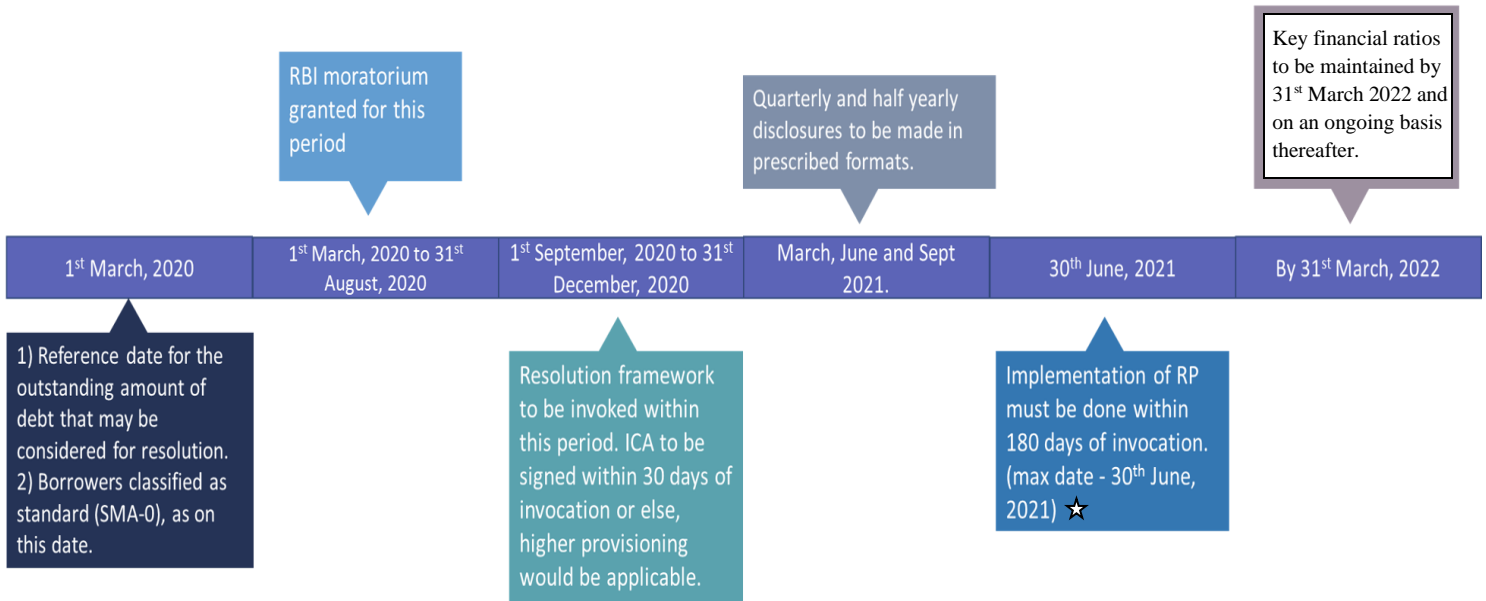
17. What is the timeline for signing ICA?

30 days from the date of invocation (last date is 31/12/2020). If ICA is not signed within the stipulated time the invocation will deemed to be lapsed. In respect of such borrowers, the resolution process cannot be invoked again under this framework.

18. Are there any other preconditions in case of large borrowers?

- Aggregate exposure of Rs 100 crores or more – Independent credit evaluation (ICE) by a credit rating agency (CRA) authorized by the RBI to be carried out.
- Aggregate exposure of Rs 1500 crores or more- the RP shall be subject to vetting by the expert committee.

19. Adherence to the timelines.



(*) Implementation to be done within 90 days of invocation in case of personal loans (max date – 31st March 2021).

If any of the above timelines are breached at any point, the resolution process ceases to apply immediately in respect of the borrower concerned. Any resolution plan implemented in breach of the above stipulated timelines shall be fully governed by the Prudential Framework, or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable, as if the resolution process was never invoked under this framework.

20. What shall be the asset classification after invocation & implementation of resolution plan under present framework?

If resolution plan is implemented within the provisions of this facility, Standard asset accounts shall be retained as such, after implementation. A standard asset which subsequently slip to NPA between invocation and implementation can be upgraded as standard, as on the date of implementation of package. Additional finance granted will be classified as standard asset till implementation regardless of actual performance during interim period.

21. What financial parameters would be considered by the bank?

The following ratios would be considered while finalising Resolution plan: -

- TOL/Adjusted tangible net worth
- Total Debt/EBIDTA
- Current ratio
- DSCR
- Average DSCR

22. When does the borrower have to achieve the prescribed ratios?

The TOL/ATNW ratio is to be maintained at the time of implementation of RP. All other key ratios shall have to be maintained as per RP by March 31, 2022 and an ongoing basis thereafter.

23. What happens if the borrower fails to meet the prescribed ratios at any time after implementation of RP?

If the borrower is unable to meet the prescribed ratios it shall be construed as a default on its part to comply with the terms of the RP. This would result in downgrade of asset classification of the borrower to NPA, with all lending institutions, including those who did not sign the ICA, from the date of implementation of the RP or the date from which the borrower had been classified as NPA before implementation of the plan, whichever is earlier.

24. How should escrow accounts be maintained?

Escrow accounts shall be required in consortium or multiple banking arrangements. The escrow account shall be maintained after implementation of RP on borrower-account level. All receipts by the borrower and all repayments, shall be routed through the escrow account maintained with one of the lending institution.

25. What will be the status of account restructuring under the Framework while reporting to CRILC or anywhere else?

As per the resolution framework, for the purpose of credit reporting to CICs including CRILC, the accounts shall be treated as restructured if the resolution plan involves renegotiations that would be classified as restructuring.