PRESENTATION ON REGULATORY MEASURES TO MITIGATE THE BURDEN OF DEBT SERVICING BROUGHT ABOUT BY DISRUPTIONS ON ACCOUNT OF COVID-19 PANDEMIC

BY

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Rescheduling of Payments-Term Loans & Working Capital facilities

- **As per RBI Circular DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 in respect of-**
  - All term loans
    - Agricultural term loans
    - Retail loans
    - Crop loans
  - All commercial banks
    - Regional rural banks
    - Small Finance Banks
    - Local Area Banks
  - Co-operative Banks
  - All-India Financial Institutions and
  - NBFCs (including housing finance companies)

are **permitted** to grant a moratorium of three months on payment of all instalments **falling due between March 1, 2020 and May 31, 2020**.

Rescheduling of Payments-Term Loans & Working Capital facilities

- The repayment schedule for such loans as also the residual tenor, will be **shifted across the board by three months** after the moratorium period

- Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

- In respect of **working capital facilities** sanctioned in the form of cash credit/overdraft (CC/OD), lending institutions are permitted to **defer** the recovery of **interest applied during the period from March 1, 2020 up to May 31, 2020**.

- The accumulated accrued interest shall be **recovered immediately** after the completion of this period.

Easing of Working Capital Financing

- In respect of **working capital facilities** sanctioned-
  - In the form of CC/OD
  - to borrowers facing stress on account of the economic fallout of the pandemic

  Lending institutions may recalculate the 'drawing power' by **reducing the margins** and/or by **reassessing the working capital cycle**.
- This relief shall be available in respect of all such **changes effected up to May 31, 2020**.
- Relief 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.

Not to be considered as concession

- Since the moratorium/deferment/recalculation of the 'drawing power' is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be **treated as concession or change in terms and conditions** of loan agreements due to financial difficulty of the borrower under paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 ("Prudential Framework").

- Consequently, such a measure, by itself, **shall not result** in asset classification downgrade.

Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

- The asset classification of term loans which are granted relief as per Slide 2 shall be **determined on the basis of revised due dates and the revised repayment schedule**.
- Similarly, working capital facilities where relief is provided as per Slide 4 above, the **SMA and the out of order status** shall be evaluated considering the application of accumulated interest immediately after the completion of the deferment period as well as the revised terms, as permitted in terms mentioned in Slide 4.
- The rescheduling of payments, including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies(CICs) by the lending institutions.
- CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

Clarification

- The intention of the reliefs provided under the Circular date 27th March, 2020 is to mitigate the burden of debt servicing brought about by disruptions on account of Covid-19 on borrowers who otherwise have been servicing their accounts regularly, but would have defaulted on account of temporary stress due to Covid-19.

- If a borrower has been in default even before March 01, 2020, such a default cannot be seen as a result of the economic fallout of the pandemic.

- The benefit of the moratorium can be extended to such borrowers in respect of payments falling due during the period March 01, 2020-May 31, 2020. However, the payments overdue on or before February 29, 2020 will attract IRAC (Income recognition and asset classification) norms.

Non Performing Assets (NPA)

- As per the RBI Master circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, a **non performing asset (NPA)** is a loan or an advance where-
  - Interest and/ or instalment of principal remain **overdue** for a period of more than 90 days in respect of a term loan,
  - The account remains 'out of order' as indicated in the next slide, in respect of an Overdraft/Cash Credit (OD/CC),
  - The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
  - The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
  - The instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

Non Performing Assets (NPA)

- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

- In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

“Out of Order” Status & Overdue

- An account should be treated as **'out of order'** if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days.

- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order’.

- Any amount due to the bank under any credit facility is **‘overdue’** if it is not paid on the due date fixed by the bank.

Special Mention Account (SMA)

- Lenders shall recognize incipient stress in loan accounts, immediately on default, by classifying such assets as special mention accounts (SMA) as per the following categories-

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

Other Conditions

- Lending institutions shall frame Board approved polices for providing the abovementioned reliefs to all eligible borrowers, inter alia, including the objective criteria for considering reliefs under Slide 4 and disclosed in public domain.

- Wherever the exposure of a lending institution to a borrower is Rs.5 crore or above as on March 1, 2020, the bank shall–
    - Develop an MIS on the reliefs provided to its borrowers
    - It shall inter alia include borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.

- The instructions in this circular come into force with immediate effect.

Other Conditions

The Board of Directors and the key management personnel of the lending institutions shall ensure that the above instructions are properly communicated down the line in their respective organizations, and clear instructions are issued to their staff regarding their implementation.

Questions?

Thank you