

CIRCULAR No. 70/2021/BC/CD - 21
17th May, 2021

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

(Ref: HO Cir. No. 147/2020 dt. 07.10.2020)

With a view to assuage the lingering impact of the Covid-19 pandemic on businesses and the consequent economic fallout, Reserve Bank of India had announced 'Resolution Framework for Covid-19- related Stress' through its circular dated 06.08.2020. Bank had implemented the scheme with the approval of the Board and extended the benefits to all eligible borrowers.

In view of the resurgence of COVID 19 and consequent lockdown restrictions, RBI has come up with another scheme with the objective of alleviating the potential stress to individual borrowers and small businesses, namely Resolution Framework 2.0 – Resolution of Covid-19 related stress of Individuals and Small Businesses. As instructed by RBI, we have formulated a policy with due concurrence of the Board on Resolution of COVID 19 related stress of Individual and Small Businesses.

The Policy on 'Resolution Framework 2.0 – Resolution of Covid-19 related stress of Individuals and Small Businesses' in line with RBI guidelines and approved by the Board, is enclosed with this circular.

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. The last date for invocation of resolution permitted under this window is 30.09.2021.

Benefit of these guidelines shall be extended to deserving and needy cases only after fully establishing that the cash flows has been affected temporarily in respect of individuals and the viability of the project in respect of other business units. Hence, Branch Heads/ BOMS/ RMs/ Cluster Heads are requested to go through the desirability of resolution under the scheme and the viability thereof.

All concerned are advised to adhere to the policy guidelines and extend the benefit in all deserving cases.



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Authority: B-CR- 05 of the Financial Year 2021-22.

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

To: All Offices



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

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Distribution List

Name
All Branches and Offices

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I. Introduction

Reserve Bank of India had announced 'Resolution Framework for Covid-19- related Stress' through its circular dated 06.08.2020 which enabled the Bank 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 scheme was communicated through HO circular No. 147/ 2020 dt. 07.10.2020.

With resurgence of COVID 19 and consequent impacts, RBI has introduced another scheme with the objective of alleviating the potential stress to individual borrowers and small businesses, namely Resolution Framework 2.0 – Resolution of Covid-19 related stress of Individuals and Small Businesses. As such the earlier scheme is renamed as Resolution Framework - 1.0.

System for redressing the grievance of borrowers who request for resolution under the window and / or are undergoing resolution under this window, is made available in the website of the bank through link <https://online.csb.co.in/grievanceregister/grievance.aspx>.

A. Resolution of advances to individuals and small businesses

Under the scheme, we may 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.

1. Eligible Borrowers

- a. Individuals who have availed of personal loans excluding the credit facilities provided by the Bank to own personnel/staff.
- b. Individuals who have availed of loans and advances for business purposes and provided its aggregate exposure from all the lending institutions as on 31.03.2021 shall not be more than Rs 25 crore.
- c. Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on 31.03.2021, provided its aggregate exposure from all the lending institutions as on 31.03.2021 shall not be more than Rs.25 crore.
- d. The borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0 except the exemption provided under clause 6(i)
- e. The credit facilities/ investment exposure to the borrower was classified as Standard on 31.03.2021.

2. Ineligible Accounts

The following categories of borrowers / credit facilities shall not be eligible for a resolution plan under this framework:

- a. Borrowers classified as MSME as on 31.03.2021.
- b. Farm credit as per extant RBI directions.
- 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 of lending institutions to financial service providers.
- e. Exposures of lending institutions to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

Any resolution plan implemented in breach of the stipulations of scheme shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued by RBI or the relevant instructions as applicable to specific category of lending institutions where the Prudential Framework is not applicable.

3. Invocation of resolution process

- a. The resolution under this facility is provided only to the borrowers having stress on account of Covid-19.
- b. Due diligence

Proper due diligence considerations have to be followed to establish the necessity of implementing a resolution plan in respect of the concerned borrower. Major due diligences to be followed are listed below.

- In the case of personal loans, it shall be ensured that the income is affected temporarily on account of COVID -19 and not due to any other reasons.
 - In the case of business units it shall be ensured that unit is functioning and not shutdown. Revival of the unit shall also be assessed.
 - BOM/ BMs/ Cluster Heads/ Relationship Mangers/ Equivalent functionary of the respective business vertical shall ensure compliance of above referred due diligences.
 - For exposures other than personal loans and upto and including Rs 10 crore, audited/ provisional financial statements as on 31.03.2021 to be analyzed. In the case of exposures above Rs 10 crore, projected financials shall also be obtained and analyzed.
 - Any two of the financial ratios specified below shall be within acceptable levels.
 - Current Ratio : Current ratio shall not be less than 0.75
 - DSCR : DSCR shall not be less than 0.75
 - DER : DER shall not go beyond 8.
 - Financial parameters as specified in 'Resolution Framework for COVID-19-related Stress – Financial Parameters' issued by RBI through its circular dated 07.09.2020 will not be applicable to resolution plans implemented under this window except as specified above.
- c. The resolution process under this window shall be treated as invoked when the Bank and the borrower agree to proceed with the efforts towards finalising a resolution plan. Date of invocation will be the date on which the application submitted by the borrower is accepted by the bank for consideration
 - d. Decision on the application shall be communicated in writing to the applicant within 30 days of receipt of such applications.
 - e. The decision to invoke the resolution process under this window shall be taken independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
 - f. The last date for invocation of resolution permitted under this window is 30.09.2021.

4. 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. Bank may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period not more than two years. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.
- c. The resolution plan may provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, provided the amortisation schedule and the coupon carried by such debt securities are similar to the terms of the debt held on the books of the lending institutions, post implementation of the resolution plan. The holding of such instruments by the Bank shall be subject to the extant instructions on investments as applicable to them.
- d. The valuation of equity instruments issued, if any, shall be governed by the provisions of Prudential Framework as given below
Equity instruments, where classified as standard, shall be valued at market value, if quoted, or else, should be valued at the lowest value arrived using book value (without considering 'revaluation reserves') or discounted cash flow method, whereas debt securities shall be valued on the YTM basis. Such securities viz. debentures/ bonds may be of different companies having different ratings. These will be valued with appropriate mark-up over the YTM rates for Central Government Securities as put out by PDAI/ FIMMDA periodically.
- e. If a portion of the debt is converted into any other security, the same shall collectively be valued at Re.1.
- f. The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window.
- g. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:
 - 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;
 - The changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
 - Borrower is not in default with the lending institution as per the revised terms.

5. Asset classification and provisioning

- a. If a resolution plan is implemented in adherence to the provisions of this scheme, 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.
- b. The subsequent asset classification for such exposures will be governed by 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. Bank 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 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 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.
- 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.

6. Convergence of the norms for loans resolved previously

- i. In cases of loans of borrowers specified in Clause 1 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where the resolution plans had permitted no moratorium or moratorium of less than two years and/ or extension of residual tenor by a period of less than two years, Bank can use this window to modify such plans **only** to the extent of increasing the period of moratorium/ extension of residual tenor 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.
- ii. This modification shall also follow the timelines specified in Clauses 3 (a), 3 (e) and 4 (f) above. For loans where modifications are implemented in line with Clause 6 (i) above, 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

In respect of individual and small business borrowers as specified in clause 1 (b) and 1 (c) enjoying loans and advances where resolution plans had been implemented in terms of the Resolution Framework – 1.0, as a one-time measure, Bank is permitted 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 30.09.2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by 31.03.2022. However it shall be ensured 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.

As part of the reassessment, margin stipulation as specified in loan policy can be reduced as below.

Margin on stock : 15 % (against policy requirement of 25%)

Margin on book debts : 25 % (against policy requirement of 40%)

C. Disclosures and Credit Reporting

Whenever the Bank publishes financial statements, disclosure shall be made in line with RBI directions in this regard. Sanctioning offices shall communicate the details of resolution plan sanctioned by them, to Credit Monitoring Department on a quarterly basis or as and when required. Format for disclosure is provided as annexure I.

The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 1 (d) above, and the aggregate exposure to such borrowers may also be part of the disclosure.

The credit reporting 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.

Annexure I

Format for disclosures to be made in Financial Statement

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			