

("Resolution Framework 2.0")**Introduction:**

The Reserve Bank of India vide its notification 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, 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.

Accordingly, it is proposed to extend the policy as issued for Resolution Framework - 1.0, with modification to comply with the guidelines issued vide Resolution Framework - 2.0. The policy was based on RBI notification No. DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021.

Eligibility:

The borrowers satisfying the below mentioned criteria are eligible for restructuring under this policy.

- a. Individuals who have availed Auto Loans (other than for commercial use) excluding the credit facilities provided by lending institutions to their own personnel/staff.
- b. Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.50 crore as on March 31, 2021.
- c. Small businesses, including those engaged in retail and wholesale trade, other than those classified as MSME as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than Rs.50 crore as on March 31, 2021.
- d. Accounts under above categories should be classified as Standard as on 31-Mar-21.

Exclusions:

The below mentioned borrowers are ineligible for resolution plan under this policy.

- a. Individuals who have availed of loans and advances for business purposes, Small businesses, including those engaged in retail and wholesale trade, other than those classified as MSME as on March 31, 2021, and to whom the lending institutions have aggregate exposure of more than Rs.50 crore as on March 31, 2021.

- b. Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated) or other relevant instructions as applicable to specific category of lending institutions, read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020).
- 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.
- f. Exposures of housing finance companies where the account has been rescheduled in terms of para 2(1)(zc)(ii) of the Master Circular - The Housing Finance Companies (NHB) Directions, 2010 after March 1, 2020, unless a resolution plan under this framework has been invoked by other lending institutions. However, from the date of this circular, any resolution necessitated on account of the economic fallout of Covid-19 pandemic, shall be undertaken only under this framework.
- g. MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs. 50 Crore or less as on March 1, 2021.
- h. Borrower accounts should not have availed of any resolution in terms of Resolution Framework – 1.0 subjected to undernoted exemption:
 1. In cases of loans of borrowers 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, operating units are permitted under this Framework.
 - to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to cap of 2 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.
 - The modifications shall follow the timelines as mentioned above under this Framework.
 - Asset Classification and Provisioning Norms as applicable under Resolution Framework 1.0 will apply.

2. Working Capital Loan for Small Businesses resolved under Resolution Framework 1.0.

Reference Date:

The reference date for the outstanding amount of debt that shall be considered for resolution shall be 31-Mar-21.

Timelines:

The facility will be offered to the borrowers on request and upon submission of suitable declaration that his income and cash flows are under strain due to COVID related stress.

Resolution under this framework must be invoked not later than 30.09.2021 and the resolution plan must be implemented within 90 days from the date of invocation.

Date on which the request letter for resolution plan along with the declaration is received at IKF will be treated as date of invocation.

The resolution process under this window shall be treated as invoked when IKF and the borrower agree to proceed with the efforts towards finalizing a resolution plan to be implemented in respect of such borrower. The decision in this regard to be conveyed to the customer maximum within 30 days of receipt of the application for resolution of debt from the applicant.

The resolution plan will be treated as implemented only if the following conditions are satisfied:

- a. All related documentation, including execution of necessary agreements with the borrower and creation/ extension of security (if applicable) are completed in consonance with the resolution plan.
- b. The changes in the terms and conditions of the loans are duly reflected in IKF's books.
- c. Borrower(s) is/are not in default with respect to any terms and condition as per the revised terms.

Restructure Spread:

While allowing "Resolution plan" under the framework, an additional Rate of Interest (ROI) may be charged.

Features of Resolution Plan:

Resolution Plan implemented in any of the account of the borrower, may *inter alia* contain following features:

- i. Rescheduling dues including over dues/Installments.
- ii. Funding of interest accrued by way of Funded Interest Term Loan.
- iii. Revision or Reworking of EMIs.
- iv. Moratorium for a period of not more than 24 months.
- v. Extension of residual tenor with or without moratorium. (The overall cap on extension of residual tenor with moratorium period if any permitted is 24 months).
- vi. Change in payment terms such that is to say EMIs into Balloon repayments or Bullet repayment of portion of the loan outstanding vice versa.

- vii. All the above, any combination of the above.

Identification of Stress Due to COVID-19

1. For Personal (Non-Commercial Loans):

This facility will be extended only to those cases where stress is on account of COVID-19 related issues like:

- a. Reduction in Salary/Income
- b. Reduction/Suspension in Salary during the lockdown period
- c. Job Loss/Closure of business
- d. Reduced activity of units/shops/business establishments in case of self-employed/professionals/businessmen
- e. Other instances where income streams/cash flow of borrowers is adversely affected on account of lockdown and other COVID-19 related issues

Documentary proof required:

- a. Proof of reduction in salary (Payslips)
- b. Letter of termination/discharge from jobs (in case of job loss)
- c. Declaration from self-employed/professional/businessmen declaring that their business is affected by COVID-19.
- d. Proof of reduction in turnover.

2. For Business Loans:

This facility will be extended only to those cases where stress is on account of COVID-19 related issues like:

- a. Reduction in Turnover when compared to previous years. In case of new establishment turnover has to be compared with the projections.
- b. Temporary closure of unit.

Documentary proof required:

- a. Declaration form declaring that their business is affected by COVID-19.
- b. Proof of reduction in turnover (i.e. GST Returns / Bank Statements if the borrower is exempt from GST).
- c. In case of companies, board resolution stating that the operations are under stress on account of COVID-19.

IKF will assess the stress on case to case basis based on the prevailing situations.

Compromise settlements are not permitted as a Resolution Plan under this framework.

In respect of borrowers where the resolution process has been invoked, additional finance may be sanctioned 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.

Treatment of exposures of accounts purchased under Direct Assignment:

IKF Finance purchases the accounts under Retail & MSME segment from various originators in accordance with “Policy on Purchase and Sale of Assets through Direct Assignment of Cash Flows”. These originators also serves as servicing agents on behalf of the IKF Finance for servicing all such purchased underlying accounts.

Both the Resolution Framework 1.0 and Resolution Framework 2.0 are applicable for accounts purchased under Direct Assignment.

Each Originator may frame different policies with in the overall ambit of RBI guidelines. Originators have to seek IKF's approval for allowing any resolution plan to the customers assigned to IKF.

On implementation of resolution plan, originators has to be provide the following documents:

- a. Policy approved by the Board of originator.
- b. Detailed information regarding accounts covered under resolution plan with monthly payouts, existing repayment schedule, revised repayment schedule, benefit passed, terms agreed etc.
- c. Share the reports in the applicable formats as and when requested.
- d. Any other information required by IKF, its auditors, authorised representatives upto their satisfaction.

Asset Classification and Provisioning:

Asset Classification:

The asset classification of borrowers' accounts where resolution plan was implemented shall be 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.

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”).

For the accounts, where resolution plans had been implemented in terms of Resolution Framework – 1.0, the asset classification shall continue to be as per the Resolution Framework – 1.0.

Any resolution plan implemented in breach of the stipulations of this policy shall be fully governed by the Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019 (“Prudential Framework”).

Provisioning Requirements:

In respect of accounts where a resolution plan is implemented under this framework, IKF will keep the provisions from the date of implementation, which will be higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10% of the renegotiated debt exposure of IKF post implementation (residual debt) or ECL provision.

For the accounts, where resolution plans had been implemented in terms of Resolution Framework – 1.0, the provisioning shall continue to be as per the Resolution Framework – 1.0.

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. However, 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.

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.

Post Implementation Performance:

After implementation of the resolution plan in terms of this framework, the subsequent asset classification will be governed by the criteria laid out in the Master Circular by RBI on 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”) or ECL provision whichever is more.

Disclosure and Reporting Requirements:

The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented 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. The borrowers availing such facilities shall be accordingly informed about such reporting to CIC well in advance.

IKF will provide disclosure in the annual financial statements in the format prescribed till all exposures on which resolution plan was implemented are either fully extinguished or completely slips into NPA, whichever is earlier.