

Restructuring of loan as per RBI circular under resolution framework -2.00

The Reserve Bank of India (RBI) as per circular dated 06-08-2020 has allowed a one-time restructuring of loans to help MSME borrowers, Corporates and individuals manage the financial stress caused by the Covid-19 pandemic.

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. The RBI is come out with circular dated 05-05-2021 with the objective of alleviating the potential stress to MSME, individual borrowers and small businesses & following measures are being announced.

PART - I

Micro, Small and Medium Enterprises (MSME) sector - Restructuring of Advances for COVID 19 as per RBI circular dated 05-05-2021

Particulars	Conditions
Eligibility	<p>⇒ Aggregate exposure including non-fund based facilities of the borrower should be upto Rs.25 crore as on 31-03-2021.</p> <p>⇒ Account was standard as 31-03-2021</p> <p>⇒ The borrower should be MSME on 31-03-2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020 (Refer note below for MSME definition)</p> <p>⇒ The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs exempt from GST-registration. This shall be determined on the basis of exemption limit as on 31-03-2021.</p> <p>⇒ Accounts already restructured earlier (RBI circular dated 06-08-2020, 11-02-2020 & 01-01-2019) shall not be eligible for restructure under this plan.</p>
Invocation	<p>⇒ Invocation date shall be not later than 30-09-2021</p> <p>⇒ Date of invocation: Date on which both the borrower and bank agreed to proceed with finalizing a Resolution Plan (RP) under this framework.</p> <p>⇒ The decisions on applications for invoking restructuring shall be communicated in writing to the borrower by the bank within 30 days of receipt of such applications.</p>
Implementation	<p>⇒ Within 90 days from the date of invocation</p>

Condition for implementation	<p>⇒ The above measures shall be subject to condition that the same is necessitated on account of economic fallout from COVID-19. The viability should be assessed of stress accounts to justify on account of the economic fallout from Covid-19.</p> <p>⇒ All related documentation, including execution of necessary agreements between bank and borrower / creation of security charge / perfection of securities are completed by the bank.</p>
Asset Classification	<p>⇒ Existing loans to MSMEs classified as 'standard' may be restructured without a downgrade in the asset classification subject to above conditions.</p> <p>⇒ The accounts which may have slipped into NPA category between 01-04-2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.</p> <p>⇒ Post-restructuring, NPA classification of these accounts shall be as per the regular IRAC norms.</p>
Provisioning	<p>⇒ Keep 10% provision of residual debt shall be made upon implementation of the restructuring plan.</p>
Working capital loans	<p>⇒ In respect of accounts of borrowers, which were restructured in terms of the MSME restructuring circulars, banks 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 bank by 30-09-2021.</p> <p>⇒ The reassessed sanctioned limit / drawing power shall be subject to review by the bank at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions</p>

(*) **Definition of MSMEs classification;**

Enterprises	Criteria: Investment in Plant and Machinery or Equipment and Annual Turnover
Micro Enterprises	Investment upto Rs.1 crore and Turnover upto Rs.5 crore
Small Enterprises	Investment > Rs.1 crore upto Rs.10 crore and Turnover > Rs.5 crore upto Rs.50 crore
Medium Enterprises	Investment > Rs.10 crore upto Rs.50 crore and Turnover > Rs.50 crore upto Rs.250 crore

Note:-

- 1) Udyam Registration Certificates should be obtained from entrepreneur. If the borrower is not registered in the Udyam Registration portal, such registration shall be required to be completed before the date of implementation of the restructuring plan for the plan to be treated as implemented
- 2) Written down Value (WDV) of investment in plant & machinery or equipment as at the end of the Financial Year as defined in the Income Tax Act shall be considered.
- 3) Turnover should be considered as per Income tax return or GST returns. Exports of goods or services or both, shall be **excluded** while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification.

PART - II

The Resolution Framework 2.00 for COVID-19-related Stress (Individuals and Small Businesses) as RBI circular dated 05-05-2021

1.00 Applicability:

- **The guidelines applicable to**
 - a. Individuals who have availed of personal loans (as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated 01-01-2018 i.e. (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.), but not applicable to Bank's own staff.
 - b. Individuals who have availed of loans for business purposes with aggregate exposure Rs.25 crore & less as on 31-03-2021.
 - c. Small retail and wholesale trade business (other than those classified as MSME) as on 31-03-2021 with aggregate exposure Rs.25 crore & less.

- **Borrowers / credit facilities not eligible for a RP under this framework:**
 - a. MSME borrowers with aggregate exposure Rs.25 crore or less as 31-03-2021.
 - b. Farm credit
 - 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.

2.00 Resolution Plan for Stress Individual & Small Business

Particulars	Conditions
Eligibility	<p>⇒ The eligible borrower account classified as standard on 31-03-2021</p> <p>⇒ Borrower accounts availed of any resolution in terms of the Resolution Framework -1.0 shall not eligible under this RP except the following;</p> <p><i>In cases of loans of borrowers where RP's had been implemented in terms of the Resolution Framework – 1.0, and permitted no moratorium or moratorium of less than two years and / or extension of residual tenor by a period of less than two years, banks are permitted to use this framework to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor up to a total of 2 years.</i></p>
Invocation	<p>⇒ Invocation date shall be not later than 30-09-2021</p> <p>⇒ Date of invocation: Date on which both the borrower and bank have agreed to proceed with finalizing a restructuring plan under this framework.</p> <p>⇒ The decisions on applications for invoking restructuring shall be communicated in writing to the borrower by the bank within 30 days of receipt of such applications.</p>
Implementation	<p>⇒ Within 90 days from the date of invocation</p>

Particulars	Conditions
Resolution Plan	<p>⇒ Rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, revisions in working capital sanctions, granting of moratorium subject to maximum of two years based on due diligence of the borrower to be carried by bank and income assessment of the borrower to establish the necessity of implementing a RP ensuring that the resolution under this facility is provided only to the borrowers having stress on account of COVID-19.</p> <p>⇒ The overall cap on extension of residual tenor including moratorium period if any permitted shall be two years.</p> <p>⇒ Compromise settlements are not permitted as a RP for this purpose.</p> <p>⇒ Financial parameters as RBI circular 07-09-2020 (Kamath Committee) shall not be applicable to RP implemented under this framework.</p>
Conditions for implementation	<p>⇒ Execute necessary agreements between banks and borrower and collaterals provided, if any,</p> <p>⇒ Revised terms of conditions of loans duly reflected in books of banks.</p> <p>⇒ Borrower not in default with the bank as per revised terms.</p>
Assets Classification	<p>⇒ If RP implemented, account may be retained as Standard upon implementation, whereas accounts slipped into NPA between invocation and implementation may be upgraded as Standard, as on date of implementation. If additional finance sanctioned to borrower before implementation in respect of whom the RP has been invoked, may be classified as “Standard” till date of implementation.</p> <p>⇒ If RP not implemented within 90 days, the asset classification of additional finance shall be actual performance or classification of other credit facilities, whichever is worse.</p> <p>⇒ Post RP implementation, account will be classified as NPA based on record of recovery or actual performance as per regular IRAC norms</p>

Particulars	Conditions
Provisioning	⇒ Provisions from the date of implementation, higher of the provisions held as per the regular IRAC norms immediately before implementation, or 10% of the renegotiated debt exposure of the bank post implementation (residual debt)
Reversal of Provisions	⇒ Half of the above provisions may be written back if the borrower paying at least 20% 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% of the residual debt without slipping into NPA subsequently. ⇒ In respect of exposure other than personal loans, the above provisions shall not be written back before one year from the commencement of first payment of interest or principal.
Disclosure	⇒ Appropriate disclosure is to be made under notes on accounts published along with annual report

3.00 Working capital support for small businesses where RP's were implemented previously

- ⇒ In respect of individual borrower having loans for the business purpose and small retail /wholesale trade business borrowers, where RP's had been implemented in terms of the Resolution Framework - 1.0, bank 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 shall be taken by bank by 30-09-2021, with the margins and working capital limits being restored to the levels as per the RP implemented under Resolution Framework - 1.0, by 31-03-2022.
- ⇒ The above measure shall be contingent on the banks themselves that the same is necessitated on account of economic fallout from COVID-19.