Resolution Framework for COVID-19 Related Stress – 6 August 2020

Highlights of the scheme

- After two rounds of loan moratorium announced in March 2020 and May 2020, RBI has come up with a one-time resolution framework for COVID-19 related stress on 6 August 2020. The framework will be a special window under the RBI Prudential Framework on Resolution of Stressed Assets dated 7 June 2019.

- The framework will enable the 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.

Eligibility of Borrowers

- **Corporate borrowers and Personal loans;** which were classified as standard, but not in default for more than 30 days (SMA-0*) with any lending institution as on **1 March 2020.**

- Following categories of borrowers are <u>excluded</u> from this framework:
  - MSME borrowers whose aggregate exposure to lending institutions collectively is INR 25 crore or less as on 1 March 2020
  - Farm credit
  - Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture
  - Exposures of lending institutions to financial service providers
  - 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
  - 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

**SMA – Special Mention Accounts*

Resolution Plan Implementation Timeline

- In case of corporate as well as personal borrowers, the resolution plan under the framework needs to be invoked by **31 December 2020**.
- The resolution plan needs to be implemented within **90 days** and **180 days** of invocation for personal borrowers and corporate borrowers, respectively.

Other Conditions

- In case of multiple lending institutions with exposure to the borrower, the resolution plan shall be treated as invoked if lending institutions representing **75% of the value** of outstanding credit and **60% by number** agree to invoke the resolution plan. In such cases, all the lending institutions are required to sign Inter-Creditor Agreement (ICA) within **30 days** of invocation.
- The lending institutions may allow extension of the residual tenor of the loan, with or without payment moratorium, by a period **not more than two years.**
- Wherever the resolution plans involve the conversion of a portion of debt into equity and other non-convertible debt instruments, the debt instruments with terms similar to the loan shall be counted as part of the post-resolution debt, whereas the portion converted into any other security shall be fully written down.
- Resolution plans in respect of accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is INR 100 crore and above, shall require an independent credit evaluation (ICE) by any one credit rating agency (CRA).
- The resolution plan for personal loans sanctioned to individual borrowers 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.
- All repayments by the borrower to the lending institutions and the additional disbursement shall be routed through a separate escrow account.

Expert Committee

- An Expert Committee headed by KV Kamath will be set up to make recommendations to the RBI on the required financial parameters, along with the sector specific benchmarks to be factored into each resolution plans.

- Resolution plans where the aggregate exposure of lenders at the time of invocation of resolution process is INR 1,500 crore and above will be vetted through the Expert Committee.

Asset Classification and Provisioning

- Post-implementation, the asset classification of the account will be retained as standard, or if the account had slipped into NPA after invocation but before implementation, the asset classification will be upgraded as standard upon implementation.

- If the borrower defaults in repayment post implementation and a review period of 30 days is triggered and if the default is not resolved, then the account will be downgraded to NPA for all lenders.

- Lending institutions are required to keep additional provision of 10% on the pot-resolution debt.

- Lending institutions which did not sign the ICA within 30 days of invocation are required to keep higher provision of 20% on the post-resolution debt.

- Lenders can write back 50% of the provision upon the borrower paying at least 20% of the residual debt and the remaining 50% can be written back upon the borrower paying another 10% of the residual debt.

Key Takeaways

- Comparison of the original framework with revised framework:

Particulars	Prudential Framework (June 2019)	Resolution Framework for COVID-19 Stress
Entry Barriers	No entry barriers	Accounts not in default for more than 30 days as on 1 March 2020 only eligible
Timeline	No timelines were mentioned	Resolution plan to be invoked by 31 December 2020 and implemented within 90 or 180 days of invocation for personal and corporate borrowers, respectively
Credit Rating	Credit Rating for exposures of INR 1 billion and above – ICE by at least one CRA Credit Rating for exposures of INR 5 billion and above – ICE by at least two CRAs	Credit Rating for exposures of INR 1 billion and above – ICE by at least one CRA
Provision	Additional provision at 5% of the restructured debt post-implementation of resolution plan	Additional provision at 10% (if ICA signed) or 20% (if ICA not signed) of the restructured debt post-implementation of resolution plan

- The proposed restructuring framework covers all the sectors and would provide much needed relief to corporate and individual borrowers impacted by the COVID-19 crisis.

- MSMEs with exposure of upto INR 25 crore is covered under a separate restructuring scheme of RBI to be implemented by 31 March 2021.

- The default period for classification of accounts as NPA for the restructured loans will be 30 days as per this framework instead of 90 days as per Income Recognition and Asset Classification Norms (IRAC).

Note: *Readers are requested to refer to the original circulars in detail to get a complete understanding of the above mentioned topic*

Source: *www.rbi.org.in and Clearview Research*
Circular DOR.No.BP.BC/3/21.04.048/2020-21 dated 6 August 2020 read with DBR.No.BP.BC.45/21.04.048/2018-19 dated 7 June 2019