

**Policy Note on Resolution Framework 2.0 Related to Loans Impacted by COVID-19 Epidemic**

Dated 01/06/2021

**1. Introduction**

- a. The Reserve Bank of India vide its circular 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.
- b. With the objective of alleviating the potential stress to individual borrowers and small businesses following the resurgence of the COVID-19 epidemic in recent months, the RBI has announced a new set of measures (“Resolution Framework 2.0 for COVID 19 related stress for Individuals and Small Businesses”) vide notification No RBI/2021-22/31 DOR. STR.REC.11/21. 04.048/2021-22 dated 5 May 2021. The objective of these measures is to alleviate the potential stress to individual and small businesses. The RBI has instructed financial institutions to formulate their own policies to implement Resolution Framework 2.0.
- c. Accordingly, this Policy Note has been prepared to document the Company’s policies related to managing the resolution process for loans/borrowers impacted by the COVID-19 epidemic.

**2. Scope**

- a. This Policy Note is applicable to individual and small business borrowers, including those that were provided a COVID Moratorium in terms of the Company’s “Policy Note on Treatment of Loans Provided Moratorium during COVID-19 Epidemic”, dated 15/04/2021.
- b. This Policy Note shall cover the following:
  - i. Eligibility criteria for borrowers
  - ii. The process of resolution
  - iii. Implementation of resolution

**3. Eligible Borrowers**

- a. The following borrowers shall be eligible for resolution under this Policy Note:
  - i. Individuals who have availed of personal loans. Personal loans shall refer to loans given to individuals and consist of consumer credit, education loans, loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and loans given for investment in financial assets (shares, debentures, etc.).
  - ii. Individuals who have availed of loans and advances for business purposes and to whom lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
  - iii. Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises (MSME) as on March 31, 2021, and to whom lending institutions have aggregate exposure of not more than Rs. 25 crore as on March 31, 2021.

Provided that the borrower accounts / credit facilities shall not belong to the following categories:

- i. MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs. 25 crore or less as on March 1, 2020.
- ii. Farm credit, except for loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture
- iii. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
- iv. Exposures to financial service providers.
- v. Exposures to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature.

*Provided further that* the borrower accounts should not have availed of any resolution in terms of the Resolution Framework – 1.0, subject to the special exemption mentioned below:

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, resolution under this Policy Note shall be limited **only** to the extent of increasing the period of moratorium / extension of residual tenor to 2 years in total. For avoidance of doubt, 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.

*Provided further that* the credit facilities / investment exposure to the borrower was classified as Standard as on March 31, 2021.

#### **4. Resolution Process**

- a. The resolution process under this Policy Note shall be invoked with the consent of the borrower. The resolution process shall be treated as invoked when BLFS and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.
- b. Resolution under this Policy Note shall only be available to borrowers having stress on account of Covid-19. The following due diligence shall be conducted to ensure that the borrower's income stream has been impacted by COVID-19:
  - i. Individual borrowers:
    1. In case of salaried persons/ pensioners: There should be a reduction in salary/ job loss etc. To ascertain this, the latest salary slips / bank account details of the borrower may be verified and compared with the earlier period.
    2. In case of Non-salaried persons: There should be a reduction in income stream. Bank account details, GST return etc may be verified for this purpose.

3. If the borrower or any of his dependents are infected by COVID requiring hospitalisation and incurred substantial amount (typically, more than 3 months of gross pay) for treatment, then they are also eligible for the relief
4. Death of borrower / co-borrower due to COVID
- ii. Small Business
  1. Bank statements of the individual /entity for last 6 months may be verified and compared with that of earlier period.
  2. GST Return of the individual / entity for last 6 months may be verified and compared with that of earlier period
  3. Self-attested Profit & Loss statement for the FY ended 31 March 2021 may be verified
- c. In respect of applications received by BLFS from borrowers for invoking the resolution process, the assessment of eligibility for resolution as per the instructions contained in this Policy Note shall be completed within a reasonable period. On being satisfied with the eligibility conditions the date on which BLFS decides to process the application can be taken as date of invocation.
- d. The decision to invoke the resolution process under this window shall be taken by BLFS independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- e. The last date for invocation of resolution permitted under this Policy Note is September 30, 2021.
- f. The decision on the application (sanction/ rejection) shall be communicated in writing to the applicant by BLFS within 30 days of receipt of such applications
- g. BLFS' existing Grievance Redressal Mechanism shall be available to all borrowers who have requested for resolution and/or are undergoing the resolution process
- h. The Board approved resolution policy shall be sufficiently publicised and should be available on the BLFS website in an easily accessible manner.

## **5. Key Features of Resolution & Implementation Details**

- a. Loans to Individuals and Small Business that have NOT Availed any resolution in terms of Resolution Framework 1.0
  - i. **Individual Loans**
    1. Allow moratorium period during the expected future period of stress, subject to a maximum of two years. The future period of stress shall be assessed based on the borrower's declaration of projected income.
    2. The extension of residual tenure may also be granted, with or without payment during moratorium, with an overall cap of extension (including the moratorium period, if any) of 2 years.
    3. The instalment shall be re-fixed after capitalising the interest during the moratorium, if not paid

4. The moratorium shall come into force immediately upon implementation of the resolution plan.
  5. In case overdues of instalment and/or interest already exist at the time of implementation of the resolution plan, that shall be removed from system. However, in these cases, the period of instalments pending should also to be notionally taken as the moratorium period and to be added with the future moratorium subject to overall moratorium of 2 years
- ii. Non-Individual Loans**
1. Allow moratorium period during the expected future period of stress, subject to a maximum of two years. The future period of stress shall be assessed based on the borrower's declaration of projected income.
  2. The extension of residual tenure may also be granted, with or without payment during moratorium, with an overall cap on period of extension (including the moratorium period, if any) of 2 years.
  3. The instalment shall be re-fixed/ re-scheduled based on the projected cash flow, after capitalising the interest during the moratorium, if not paid.
  4. The moratorium shall come into force immediately upon implementation of the resolution plan.
  5. In case overdues of instalment and/or interest already exist at the time of implementation of the resolution plan, that shall be removed from system. However, in these cases, the period of instalments pending should also to be notionally taken as the moratorium period and to be added with the future moratorium subject to overall moratorium of 2 years
- b. Advances to individuals and small businesses who have availed resolution in terms of the Resolution Framework 1.0
- i. Allowing moratorium period & extension of tenure: 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, modify such plans only to the extent of increasing the period of moratorium and / or extension of residual tenor up to a maximum of 24 months.
  - ii. 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.
- c. The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process.
- d. The resolution plan shall be deemed to be implemented only if all related documentation, including execution of necessary agreements between BLFS and the borrower and collaterals provided, if any, are completed in consonance with the

## **Billionloans Financial Services Private Limited**

No.370, 4<sup>th</sup> Cross, JP Nagar 3<sup>rd</sup> Phase, Bangalore - 560078

Phone: +91 80 26585620

CIN : U74999KA2016PTC097681, GSTIN: 29AAHCB0052H2ZV

resolution plan being implemented; and the borrower is not in default with BLFS as per the revised terms.

- e. Any resolution plan implemented in breach of the above stipulated timeline shall be fully governed by the Prudential Framework of the RBI, or the relevant instructions as applicable to BLFS where the Prudential Framework is not applicable.

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