

Policy on Resolution of stressed Assets due to COVID-19 for Individuals & Small Business

1. Introduction

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.

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 vide its circular DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021 has announced the **Resolution Framework - 2.0** considering the impact of the second wave of COVID-19 on the small entrepreneurs and individuals. The **Resolution Framework - 2.0** are broadly in line with the contours of the Resolution Framework - 1.0, with suitable modifications.

The **Resolution Framework - 2.0** permits the lending institution to implement the resolution plan in respect of individual borrower and small business. The guidelines also provide for treating credit exposure to be classified as standard upon implementation of the resolution subject certain condition.

Pursuant to **Resolution Framework - 2.0**, SHFC has framed the policy pertaining to implementation of viable resolution plans (RP) for eligible borrowers in accordance with the provisions of the Resolution Framework (“Policy”).

2. Purpose:

This Policy specifies the requirements for resolution for loans to Individuals and small businesses sector, in accordance with provisions of the Resolution Framework. The Company shall ensure that the resolution under this Policy is provided only to the borrowers having stress on account of COVID-19.

Accounts which do not fulfil the required eligibility conditions to be considered for resolution under this Policy may continue to be considered for resolution under the Prudential Framework or the relevant instructions as may be issued by RBI or NHB, as applicable from time to time.

3. Definitions:

In this Policy, unless there is anything in the subject or context inconsistent therewith, the expressions listed below shall, when capitalized, have the following meanings:

“Board” means the board of directors of the Company.

“Borrower(s)” means the borrowers who have availed the loan facilities from the Company.

“NPA” means Non-performing Assets.

“Personal Loans” means the loans granted by the Company to individual Borrower(s) and consist of (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.).

“Prudential Framework” means Prudential Framework for Resolution of Stressed Assets) Directions 2019, issued by RBI dated June 7, 2019, as amended from time to time.

Individuals and Small Businesses: - as defined by extend regulatory guidelines and our credit policy

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

4.1 Part A - Requirement Specific to resolution of Advances to Individual and Small Business –

Eligible Borrower	<p>(a) Individual who have availed of Personal Loans (b) Individual who have availed of loans & advance for business and aggregate exposure of Lending institution is less than 25 Cr as on 31st Mar 2021 (c) Small Business, Engaged in Retails & Wholesale other than classified as SME as on 31st Mar 2021 AND Aggregate exposure of Lending institution is less than 25 Cr as on 31st Mar 2021. (d) Borrower account should be standard as on 31st Mar 2021</p> <p>Following borrowers are excluded under this RP:</p> <p>(a) Credit Facility provided by lending Institution to their personnel / staff (b) Borrower account should not have availed of any of resolution under previous plan (RP 1.0) and subject to the exemption as per guidelines</p>
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	Detailed assessment process/ parameters described in annexure – 3.
In Case of Multiple Loans of Borrower	Decision of invoking restructuring of loans under this facility shall be taken by Company. A threshold of Rs 25 cr aggregated exposure will be checked through latest credit bureau of borrower.
Invocation Date	For invocation, the borrowers are required make a request to the lending institution for being considered under the Resolution Framework. After such invocation, the specific contours of resolution plan to be implemented may be decided by the lending institutions, in consultation with the borrower. Resolution may be invoked not later than 30th Sept 2021
Resolution Plans (RP)	<p>a) Rescheduling of repayments, 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.</p> <p>b) The moratorium period, if granted, may be for a maximum of two years, and shall come into force immediately upon implementation of the resolution plan. The extension of the residual tenor of the loan facilities may also be granted to borrowers, with or without payment moratorium. The overall cap on extension of residual tenor, inclusive of moratorium period if any permitted, shall be two years.</p> <p>c) The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower, wherever applicable, and the same shall be governed as below: -</p> <ul style="list-style-type: none"> - 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 amortization 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 shall be subject to the extant instructions on investments as applicable. - The valuation of equity instruments issued, if any, shall be governed by the provisions of Paragraphs 19(c) and 19(d) of the Annex to the Prudential

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	<p>Framework whereas debt securities shall be valued as per the instructions compiled at Paragraph 3.7.1 of the Master Circular - Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks dated July 1, 2015 (as amended from time to time), or other relevant instructions as applicable.</p> <ul style="list-style-type: none"> - In case of converting any portion of the debt into any other security, the same shall collectively be valued at Re.1. 													
Implementation Period	Must be implemented within 90 days from the Date of Invocation.													
Assets Classification & Provision	<p>Assets Classification:</p> <table border="1" data-bbox="416 786 1166 1644"> <thead> <tr> <th data-bbox="416 786 619 913">Plan Implemented</th> <th data-bbox="619 786 900 913">Account Status</th> <th data-bbox="900 786 1166 913">Assets Classification</th> </tr> </thead> <tbody> <tr> <td data-bbox="416 913 619 1413">If Yes</td> <td data-bbox="619 913 900 1413"> <table border="1" data-bbox="635 972 1150 1301"> <tr> <td data-bbox="635 972 900 1070">Standard</td> <td data-bbox="900 972 1150 1070">To be retained as Standard</td> </tr> <tr> <td data-bbox="635 1070 900 1301">If Slipped into NPA between 1st April 2021 & Implementation</td> <td data-bbox="900 1070 1150 1301">To Be upgraded as Standard as on the date of implementation of plan.</td> </tr> </table> </td> <td data-bbox="900 913 1166 1413"></td> </tr> <tr> <td data-bbox="416 1413 619 1644">If Not</td> <td data-bbox="619 1413 900 1644">Asset classification on basis of actual performance.</td> <td data-bbox="900 1413 1166 1644">And Subsequent classification will be governed by IRAC norms.</td> </tr> </tbody> </table>	Plan Implemented	Account Status	Assets Classification	If Yes	<table border="1" data-bbox="635 972 1150 1301"> <tr> <td data-bbox="635 972 900 1070">Standard</td> <td data-bbox="900 972 1150 1070">To be retained as Standard</td> </tr> <tr> <td data-bbox="635 1070 900 1301">If Slipped into NPA between 1st April 2021 & Implementation</td> <td data-bbox="900 1070 1150 1301">To Be upgraded as Standard as on the date of implementation of plan.</td> </tr> </table>	Standard	To be retained as Standard	If Slipped into NPA between 1 st April 2021 & Implementation	To Be upgraded as Standard as on the date of implementation of plan.		If Not	Asset classification on basis of actual performance.	And Subsequent classification will be governed by IRAC norms.
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Additional Finance for Interim Period	<p>Where RP invoked, additional finance can be sanctioned even before implementation of RP to meet Interim requirement of borrower.</p> <p>Classification of such addition facility given below: Will be classified as Standard till the implementation of plan regardless of actual performance.</p>													

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Provision	<p>Provisioning shall start from the date of implementation. It shall be higher of following two:</p> <p>Provisions held as per the extant IRAC# norms immediately before implementation or 10 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt)</p> <p>#IRAC:</p> <table border="1"> <thead> <tr> <th></th> <th>Loss assets</th> <th colspan="2">Doubtful assets</th> <th>Sub-standard assets</th> <th colspan="2">Standard assets</th> </tr> </thead> <tbody> <tr> <td rowspan="3">% of the outstanding</td> <td rowspan="3">100 %</td> <td>Up to one year</td> <td>25%</td> <td rowspan="3">15 %</td> <td>Housing loans at *teaser rates</td> <td>2%</td> </tr> <tr> <td>One to three years</td> <td>40%</td> <td>In all other cases</td> <td>0.40 %</td> </tr> <tr> <td>More than three years</td> <td>100%</td> <td></td> <td></td> </tr> </tbody> </table> <p>*Teaser rates: sanctioning housing loans at comparatively lower rates of interest in the first few years, after which rates are reset at higher rates</p>		Loss assets	Doubtful assets		Sub-standard assets	Standard assets		% of the outstanding	100 %	Up to one year	25%	15 %	Housing loans at *teaser rates	2%	One to three years	40%	In all other cases	0.40 %	More than three years	100%		
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Write Back of Provisions	<p>For Personal Loans and Small Business Loans</p> <table border="1"> <tr> <td>Half of above provision</td> <td>After payment of 20% of residual Debts without slipping into NPA (POST RP)</td> </tr> <tr> <td>Remaining half</td> <td>By paying another 10% of Residual debts without slipping into NPA.</td> </tr> </table>	Half of above provision	After payment of 20% of residual Debts without slipping into NPA (POST RP)	Remaining half	By paying another 10% of Residual debts without slipping into NPA.																		
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	And for other than personal loans: above provisions shall not be written back before 1 years from commencement of first payment of interest or principal (whichever later) on the credit facility with longest period of moratorium.
Convergence of the norms for Loans resolved previously	The overall caps on moratorium and/or extension of residual tenor granted under resolution framework -1.0 and this framework combine, shall be 2 years. If modification done under above clause, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0

4.2 Part B- Working capital support for small businesses where resolution plans were implemented previously: Not applicable to SHFC.

4.3 Part C- List of disclosure requirement for Lending Institution where Resolution Plan (RP) implemented under this window:

- The information disclosures as per the prescribed format in the Annual Financial Statements.
- The credit reporting in respect of borrowers where the resolution plan is implemented under this window shall reflect the “restructured due to COVID-19” status¹ 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 above measures shall be contingent and implementation in the spirit 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.

5. Monitoring Post Implementation

- The RBI has prescribed a clear monitoring period for accounts which are restructured under this policy. This period begins from the date of implementation till the point in time when the Borrower pays back at least 10% of the residual debt subject to a minimum of one year from the commencement of the first repayment of interest or principal (whichever is later) due on the credit facility with longest period of moratorium.

- In case a Borrower is in default during the monitoring period, a review period of 30 days gets triggered to the extent of applicable guidelines.
- Upon completion of the monitoring period without being classified as NPA, the asset classification norms will revert to the defined policy criteria.
- The provisions required to be maintained, 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 as well as the additional provisioning requirements as and when the Prudential Framework becomes applicable in respect of the particular account.

6. Delegation

All resolution of stressed assets under this policy including any subsequent modifications of resolution plan(s) under this policy shall be approved by the CFO and Head of Credit department of SHFC.

7. General clause

Notwithstanding the eligibility criteria as specified under this Policy, loan accounts of Borrower/s who had availed a moratorium in terms of circular no. RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27, 2020 and / or circular no. RBI/2019-20/244 DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020, issued by RBI on COVID-19 – Regulatory Package and whose repayment schedule got changed due to accrued interest during moratorium as guided by said circular; will not be deemed as reschedulement under this policy as long as respective Borrower/s are not seeking any more resolution plan under this policy and will be repaying loan as per the agreed terms from the September 2020 onwards.

The Company shall be entitled to prescribe such documentations and terms and conditions, as it deems necessary for the purpose of effective implementation of resolution plan in accordance with the Resolution Framework.

The contents of this Policy shall always be read in conjunction with the circulars and / or other guidelines issued in this regard, from time to time and in the event of any conflict of any of the provisions, the provisions as mentioned in the circulars shall prevail. Any further amendments / announcements / revisions / clarifications to these measures for resolution of stress assets, as may be applicable to the Company, shall be deemed to be suitably incorporated, mutatis mutandis, in this Policy.

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This Policy is subject to review by the Board, as and when deemed necessary. The Board may amend or revise this Policy from time to time, as required under the guidelines issued by RBI and/or NHB and other applicable laws.

Notwithstanding anything contained in this Policy, the Company shall ensure compliance with Credit Policy of SHFC and other requirements as may be prescribed under the provisions of applicable laws / regulations or any amendment thereof, from time to time.

8. Summary

Said policy drafted for giving relief to those customers who are severely impacted with current lockdown situation in major part of country amid COVID-19. Policy is based on RBI circular RBI/ 2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021.

9. Amendment

Any amendment to above policy can be approved by the CFO and Head of credit of SHFC subject to the regulatory guidelines applicable from time to time.

Annexure-1

Credit Assessment Sheet	
Customer Name	
Co Borrower	
Disbursement Date	
Disbursement Amount	
Original Sanction Tenure	
EMI Served	
Balance Tenure	
Current Principle Outstanding	
Type of Customer	Individual / Small Business / MSME
Industry Type	
Application receipt Date	
Tele PD Date	
Account status as on 31st March-2021	

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Documents Collected	<p>For Salaried</p> <ul style="list-style-type: none"> - March 2020 Salary Slip - March 2021 Salary Slip - Bank Statement last 6 months - Latest KYC of Applicant & Co applicant <p>For Self Employed</p> <ul style="list-style-type: none"> - FY 2019-20 Financials+ITR - Bank Statement of last 6 months
Current Lockdown Impact on Cash Flows	
Moratorium Availed During FY 20-21	Yes/ No
Assessment Criteria - Salaried	<ul style="list-style-type: none"> - INSR for March 2020 <70% - INSR for March 2021 <95%
Assessment Criteria - Self Employed (Financial Appraisal)	<ul style="list-style-type: none"> - Current Ratio>1 (as on 31.03.2020) - Debt Equity <6 (as on 31.03.2020) - Projected DSCR >1
Assessment Criteria - Self Employed (Surrogate Assessment)	<ul style="list-style-type: none"> - DPD<30 days as on March 1, 2020 - Decline in Turnover of FY 2020-21 as compared to FY 2019-20 by more than 25% - ABB/EMI>1 for March 2020
Current CIBIL Score	
Comment on CIBIL (if any)	
Recovery Strategy of customer	
Deviation (If Any)	
Overall Credit Observation	
<p>Note: Tele PD to be done with customer considering current lockdown condition.</p>	

ANNEXURE 2

Format for disclosures to be made in the Annual Financial Statement				
S. No	Description	Individual Borrowers		Small Business
		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			