

**Resolution Framework – 2.0**  
Resolution of Covid-19 related stress of  
Individuals and Small Businesses



Risk Management Department  
Central Office  
Karur

**PART-A: Resolution of advances to individuals and small businesses**

<b>Applicability</b>	<p>All Commercial Banks including Small Finance Banks, Local Area Banks, Regional Rural Banks,</p> <p>All primary (urban) Co-operative Banks / State Co-operative Banks / District Central Co-operative Banks</p> <p>All All-India Financial Institutions</p> <p>All NBFCs (including Housing Finance Companies)</p>
<b>Eligible Exposures</b>	<p>a. Individuals who have availed of personal loans (as defined in Cir DBR No BP BC 99/08.13.100/2017-18 dated January 4, 2018. (Personal loans refers to loans given to individuals 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.))</p> <p>b. Individuals who have availed loans and advances for business purposes and to whom the banks /lending institutions have aggregate exposure of not more than Rs.50 crores as on March 31, 2021</p> <p>c. Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the banks / lending institutions have aggregate exposure of not more than Rs.50 crores as on March 31, 2021.</p> <p>Provided</p> <ol style="list-style-type: none"> <li>1. The Credit facilities / investment exposure to the borrower should be classified as standard by the banks as on 31.03.2021.</li> <li>2. The borrower should not have availed any resolution in terms of Resolution Framework 1.0 subject to special moratorium exemption now permitted as mentioned below;</li> </ol> <p>where resolution plans had been already implemented in terms of Resolution Framework – 1.0 and 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, bank</p>

	<p>by using this window shall increase the period of moratorium / extension of residual tenor subject to the overall caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall not exceed two years. In this case, instructions regarding asset classification and provisioning shall continue to be as per the resolution framework – 1.0</p>
<p><b>Ineligible Exposures</b></p>	<ul style="list-style-type: none"> <li>a. MSME borrowers whose aggregate exposure to banks/lending institutions is collectively Rs.25 crores or less as on March 1, 2020</li> <li>b. Farm credit as listed in Para 6.1 of Master Directions FIDD CO PLAN 1/04.09.01/2016-27 DATED July 7, 2016 (as updated) or other relevant instructions as applicable to specific category of banks/lending institutions except for loans to allied activities, viz dairy, fishery, animal husbandry, poultry, bee keeping and sericulture</li> <li>c. Loans to Primary Agricultural Societies (PACS) Farmers Service Societies (FSS) and large sized Adivasi Multi-Purpose Societies (LAMPS) for on lending to agriculture</li> <li>d. Exposures of banks/lending institutions to Central and State Govts., local Government Bodies (e.g. Municipal Corporations) and body corporates established by an Act of Parliament or State Legislature</li> <li>e. Exposures to housing finance companies where the account has been rescheduled in terms of master circular – The Housing Finance Companies (NHB) directors, 2010 after March 1, 2020, unless a resolution plan under this framework has been invoked by other banks/lending institutions; however, any resolution necessitated on account of economic fallout of Covid-19 pandemic framework, shall be undertaken only under this framework</li> <li>f. Exposure of banks/lending institutions to financial service providers</li> <li>g. Credit facilities sanctioned to own personnel / staff by the bank</li> </ul>

<b>Other points</b>	<p>a. Bank shall ensure that resolution plan under this frame work is provided only to the borrowers having stress on account of Covid19</p> <p>b. Resolution plan implemented in breach of the stipulations in this circular shall be fully governed by "prudential framework for resolution of stressed assets issued on June 7 2019 (Prudential framework)</p> <p>c. Decision on the application for resolution plan shall be communicated in writing to the applicant by the Banks / lending institutions within 30 days of receipt of such application</p>
<b>Date of invocation</b>	<p>Date of invocation for this purpose shall be the date on which the borrower and bank have agreed to proceed with a resolution plan under this framework. Resolution process under this window shall be treated as invoked when the bank and the borrower agree to proceed with the efforts towards finalizing a resolution to be implemented in respect of such borrower.</p> <p>Decision to invoke the resolution process under this window shall be taken by each bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.</p> <p>Resolution under this frame work shall be invoked not later than 30.09.2021</p>
<b>Date of implementation</b>	<p>Resolution plan has to be implemented within 90 days from the date of invocation of the resolution process</p>
<b>Implementation of resolution process</b>	<p>Resolution process shall be deemed to be implemented once the following conditions are met:</p> <p>All related documentation, including execution of necessary agreement between bank and borrower and collaterals provided if any, are completed by the lenders concerned in consonance with the resolution plan being implemented;</p> <p>Changes in terms of conditions of the loans get fully reflected in the books of the banks; and</p> <p>Borrower is not in default with the lending institution as per the revised terms.</p>

<p><b>Resolution plan</b></p>	<p>Resolution plan includes:</p> <p>Rescheduling of payments, Conversion of any interest accrued or to be accrued in to another credit facility, revisions in working capital sanctions, granting of moratorium based on an assessment of income streams of the borrower, etc. However compromise settlements are not permitted as resolution plan under this window</p> <p>Moratorium period if granted shall be for 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>Wherever applicable the plan provides for conversion of portion of debt into equity or other marketable, non-convertible debt securities issued by the borrower and shall be subject to the extant instructions on investments.</p> <p>The instructions contained in the circular DOR. No. BP.BC/13/21.04.048/2020-21 dated September 7, 2020 on "Resolution Framework for COVID-19-related Stress – Financial Parameters" shall not be applicable to resolution plans implemented under this window.</p>
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### **Asset classification and provisioning**

- a. Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before the implementation of the resolution plan in order to meet the interim requirements of the borrower, may be classified as "standard asset" until implementation of the plan regardless of the actual performance of the borrower with respect to such facilities in the interim
- b. Asset classification of the additional finance sanctioned (as mentioned in Para a.) will be as per the actual performance of the borrower with respect to the additional finance or the rest of the credit facilities, whichever is worse, if the resolution plan is not implemented within the stipulated timelines
- c. Asset classification of the borrowers' accounts classified as "standard" may be retained as such upon implementation, if the

resolution plan is implemented in adherence to the provisions of this framework. Further, the borrowers' accounts which have slipped to "NPA" between invocation and implementation may be upgraded as Standard, as on the date of implementation of the plan.

- d. Bank shall keep provisions from the date of implementation, which is higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of the bank post implementation (residual debt). Residual debt will also include the portion of non-fund based facilities that may have devolved into fund based facilities after the date of implementation.
- e. 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.
- f. 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
- g. 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.

**Part B - Working capital support for small businesses where resolution plans were implemented previously**

In respect of eligible Exposures specified under Part A sub-clauses b and c of this Policy, where Resolution Framework – 1.0 had been implemented, banks are permitted, as a one-time measure to do the following:

- 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.
- Decision with regard to above shall be taken by banks by September 30, 2021, with the margins and working capital limits being restored to the levels as per the resolution plan implemented under Resolution Framework – 1.0, by March 31, 2022.
- The above measures shall be contingent on the banks satisfying themselves that the same is necessitated on account of the economic fallout from Covid19.
- Accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to justifiability on account of economic fallout from Covid-19. All the business verticals shall therefore keep the details, justifications, back papers and all other relevant information ready for inspection / review by the regulators during the course of their supervision.

**Part C: Disclosure and Credit Reporting**

- a. Banks shall at the minimum make disclosures as per the Format-X prescribed by RBI (Annexure III) in their financial statements for the quarters ending September 30, 2021 and December 31, 2021. The resolution plans implemented in terms of Part A of this framework should also be included in the continuous disclosures required as per Format-B (Annexure IV) prescribed in the Resolution Framework – 1.0.
- b. The number of borrower accounts where modifications were sanctioned and implemented and the aggregate exposure of the Banks to such borrowers permitted as per Part A: Eligible Exposure Point 2 of this Policy, shall also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- c. Credit reporting by the Bank in respect of borrowers where the resolution plan is implemented under this facility 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.

### **Part D: Delegation Matrix / Powers for Approving the Resolution Plan under this framework**

<b>Approving authority</b>	<b>Exposures approving authority</b>
COCC - Central office Credit Committee	All Exposures falling under the powers of a. ECC – GM Committee / Neo Credit Committee b. COCC c. Management Committee / Board *  * Exposures considered under item No. 'c' above are to be placed to MD & CEO for approval, along with the recommendations of COCC.
ECC – GM committee	All exposures falling under the powers of ECC- DGM Committee / NEO cases upto CBO / NCOM
ECC –DGM Committee	All exposures falling under the sanctioning powers of DM and below authorities

In respect of all the loan categories, branches to submit the resolution / restructuring plan after carrying out all the required initial due diligence, justification for resolution / restructuring, sources and adequacy of cash flow to meet the residual debt post resolution, along with the recommendations of the Divisional Manager, to respective business verticals, Central Office for placing before the appropriate Committee seeking approval. Business verticals may design a suitable physical format / application to be submitted by the borrower/s seeking resolution under this framework or explore the possibilities in LOS.

Any grievance related to the resolution plan under this Framework shall be addressed by the respective Business Verticals.

Details of exposures approved / permitted resolution / restructuring plan under this frame work, shall be furnished by all the business verticals to CBG (MIS Team) for collating the details and submitting the consolidated statement to various authorities including RBI.



## **Annexure – I: Suggested broader viability parameters – Small business exposures**

<b>Parameters</b>	<b>Prescription</b>
Operational Status	Business should have restarted (to be ensured by Unit Visit report by Branch officials)
Turnover	Brief review of turnover / performance during FY20 and FY 21 (Scrutiny of GST / Bank statement, shall throw light on this)
Profitability	Shall be a profit making (cash profit) entity in the last 3 concluded financial years (FY19 ,FY20 & FY 21)
Account Status	Account should not have been NPA at any time; rare instances of delay in meeting the commitments due to technical and other operational issues, or specific reasons that has been made known by the customer to the Bank, may be considered favourably.
Current & gearing ratios	Not below 0.75x & not above 5 including quasi equity respectively
Debt : Equity Ratio	Not above 3x; i.e. 75:25 (including quasi-equity)
ISC Ratio	Shall not be below 1.0x
CMR	Shall not be more than 6
Additional securities	Additional commercial / residential securities at an acceptable level, more specifically in respect of exposures where relief measures under Frame work – 1.0 are extended; additional funding requirements may also be taken up for consideration, duly factoring the relief measures already extended.
Others	Performance during pre-Covid period should be satisfactory and business interrupted only due to the CoVid-19 pandemic and re-started

## Annexure – II: Suggested broader viability parameters – Personal loan exposures

Parameters	Prescription
Salaried persons / Self-employed Professionals	<p>Preceding three months salary credit to the date of invocation of the scheme to be ascertained and ensured that the amount of credit is sufficient enough to meet rescheduled repayment.</p> <p>Income potential of the self-employed professionals to be ascertained to make repayment as per rescheduled structure</p>
Bureau Score	CIBIL score : as per the Retail Credit and Credit policy prescriptions at the time of on boarding the proposal or any deviation permission given at the time of on boarding
Account status	Not classified as NPA; rare instances of delay in meeting the commitments due to technical and other operational issues, or specific reasons that has been made known by the customer to the Bank, may be considered favourably.
Relationship	Minimum one year of relationship
Account conduct	Should be standard as on 31.03.2021
Jewel Loans	LTV as per the product norms specified from time to time

**Annexure – III: Format – X****Format for disclosures to be made in the quarters ending September 30, 2021 and December 31, 2021**

<b>SI No</b>	<b>Description</b>	<b>Individual Borrowers</b>		<b>Small Business</b>
		<b>Personal Loans</b>	<b>Business Loans</b>	
(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			

**Annexure – IV Format - B****Format for disclosures to be made half yearly starting September 30, 2021**

<b>Type of borrower</b>	<b>Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of the previous half-year (A)</b>	<b>Of (A), aggregate debt that slipped into NPA during the half-year</b>	<b>Of (A) amount written off during the half-year</b>	<b>Of (A) amount paid by the borrowers during the half-year</b>	<b>Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of this half-year</b>
Personal Loans					
Corporate persons*					
Of which MSMEs					
Others					
Total					

\* As defined in Section 3(7) of the Insolvency and Bankruptcy Code, 2016