

Aditya Birla Housing Finance Limited (ABHFL)

Resolution Framework – 2.0: Resolution for COVID-19 related stress accounts.

Version: ABHFL/Resolution Framework 2.0 for COVID-19 related stress accounts/May-21/1.0

OBJECTIVE AND SCOPE

RBI has, on May 5, 2021, issued circular **RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 - Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses**. This circular sets out a framework for resolution of stress caused by Covid-19 and is being referred to as Resolution Framework 2.0. The circular states “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. With the objective of alleviating the potential stress to individual borrowers and small businesses, the following set of measures are being announced.”

The set of measures announced in this circular have a few modifications as compared to the earlier set of measures announced by RBI vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 which is now being referred to as Resolution Framework 1.0.

RBI has directed to “frame Board approved policies pertaining to implementation of viable resolution plans for eligible borrowers under this framework, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19. The Board approved policy shall, inter alia, detail the eligibility of borrowers in respect of whom the lending institutions shall be willing to consider the resolution, and shall lay down the due diligence considerations to be followed by the lending institutions to establish the necessity of implementing a resolution plan in respect of the concerned borrower as well as the system for redressing the grievance of borrowers who request for resolution under the window and / or are undergoing resolution under this window.”

RBI has simultaneously issued another circular **RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22** regarding resolution for MSME.

Accordingly, below policy is formulated & placed before the board for Approval.

Reference:

- i. RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021
- ii. RBI/2021-22/32 DOR.STR.REC.12/21.04.048/2021-22 dated May 5, 2021
- iii. RBI/2020-21/16 DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020
- iv. RBI/2020-21/17 DOR.No.BP.BC/4/21.04.048/2020-21 dated August 6, 2020
- v. FAQs on Resolution Framework for Covid-19 related stress issued by the RBI

SECTION – 1: ELIGIBLE BORROWERS

- A. The credit facilities which were classified as Standard by ABHFL as on March 31, 2021 will be eligible to be considered under this resolution framework.
- B. Borrowers who are having stress on account of Covid-19 will be considered under this resolution framework. However, borrowers who have availed of any resolution in terms of the Resolution Framework – 1.0 will not be covered except for a modification as detailed in Clause 2 (E)
- C. The following category of borrowers shall be eligible for the resolution framework under this policy:
- (a) Individuals who have availed of housing loans*
 - (b) Individuals who have availed of loans for a personal purpose*
 - (c) Individuals who have availed of loans for business purposes and to whom the lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
 - (d) 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 lending institutions have aggregate exposure of not more than Rs.25 crore as on March 31, 2021.

*(Category (a) and (b) above are personal loans as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on “XBRL Returns – Harmonization of Banking Statistics”),

- D. Under MSME category, the eligibility criteria are:
- (a) The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
 - (b) The borrowing entity is GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 31, 2021.
 - (c) The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹25 crore as on March 31, 2021.
 - (d) The borrower should be registered on the Udyam Registration portal. If not registered, 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.
- E. The following categories of borrowers / credit facilities shall not be eligible for resolution plan under this framework:
- 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. However, from the date of this circular, any resolution necessitated on account of the economic fallout of Covid-19 pandemic, shall be undertaken only under this framework.

- Loans provided to staff of ABHFL

SECTION – 2: FEATURES OF RESOLUTION PLAN

- A. The following resolutions plans can be implemented under this framework, inter alia:
- a. Rescheduling of payments,
 - b. Conversion of any interest accrued or to be accrued into another credit facility,
 - c. Granting of moratorium based on an assessment of income streams of the borrower, and
 - d. Additional finance to meet interim liquidity requirements.
- B. Compromise settlements are not permitted as a resolution plan for this purpose.
- C. 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.
- D. 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.
- E. 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, the resolution plan can be modified only to the extent of increasing the period of moratorium / extension of residual tenor subject to the cap of two years, and the consequent changes necessary in the terms of the loan for implementing such extension. 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.
- F. 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 per the terms of Resolution Framework – 1.0.

SECTION – 3: RESOLUTION PROCESS

- A. As all kinds of borrower's requests cannot be anticipated and, in order to, ensure effective and fair implementation of the policy the Board is requested to authorise a Committee consisting of three of the following executives namely CEO, CRO and CFO to take decisions on such requests. The committee would be referred to as Resolution Committee.
- B. The Resolution Committee shall take into cognizance the FAQs on Resolution Framework for Covid-19 related stress issued by the RBI from time to time. The detailed guidelines/policy under Resolution Framework – 1.0 shall remain applicable except for modifications/updates made under Resolution Framework 2.0.
- C. Detailed guidelines on the resolution process is given in Annexure 1.**
- D. The resolution process under this window shall be treated as invoked when ABHFL and the borrower agree to proceed with the efforts towards finalising a resolution plan to be implemented in respect of such borrower.
- E. The decision to invoke the resolution process under this window taken by ABHFL shall be independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- F. The last date for invocation of resolution permitted under this window is September 30, 2021.
- G. The resolution plan should be finalised and implemented within 90 days from the date of invocation of the resolution process under this window.
- H. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:
- a. all related documentation, including execution of necessary agreements between ABHFL and borrower and collaterals provided, if any, are completed in consonance with the resolution plan being implemented;
 - b. the changes in the terms of conditions of the loans get duly reflected in the books of ABHFL; and
 - c. borrower is not in default with ABHFL as per the revised terms.

SECTION – 4: ASSET CLASSIFICATION AND PROVISIONING

- A. If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan.
- B. The subsequent asset classification for such exposures will be governed by the criteria laid out in the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2015 or other relevant instructions as applicable to ABHFL ("extant IRAC norms").
- C. In respect of borrowers where the resolution process has been invoked, ABHFL is permitted to sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower. This facility of additional finance may be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.
- D. ABHFL shall keep provisions from the date of implementation, which are higher of the provisions held as per the extant IRAC norms immediately before implementation, or 10 percent of the renegotiated debt exposure of ABHFL post implementation (residual debt). Residual debt, for this purpose, 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. Provided that 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 under this window, to the extent not already reversed, including provisions required to be made vide RBI Circular DOR.STR.REC.4/21.04.048/2021-22 April 7, 2021 reg., Asset Classification and Income Recognition following the expiry of Covid-19 regulatory package, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.
- H. In respect of restructuring plans implemented for MSME borrowers as eligible under clause 1 (D), asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 2021 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan.

SECTION – 5: DISCLOSURES

- A. If ABHFL is required to publish quarterly financial statements, it shall, make disclosures as per the format prescribed in Format-X 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 prescribed in the Resolution Framework – 1.0.
- B. The number of borrower accounts where modifications were sanctioned and implemented, and the aggregate exposure of ABHFL to such borrowers shall be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- C. ABHFL shall also make the required disclosures in their annual financial statements, along with other prescribed disclosures.
- D. The credit reporting by the ABHFL in respect of borrowers where the resolution plan is implemented 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.

SECTION – 6: OTHERS

Omnibus Clause:

All extant & future master circulars/directions/guidelines/guidance notes issued by National Housing Bank (NHB) and Reserve Bank of India (RBI) from time to time would be the directing force for the Policy of ABHFL and will super cede the contents of this Policy.

Any further changes to this policy can be done only after approval from CEO, CRO and CFO. Any significant changes to be this policy will be informed to the Board.

Annexure 1

Detailed Guidelines for Resolution Process

1. The board authorised **Resolution Committee** will oversee the resolution process and adhere to the RBI guidelines.
2. The salient features of the board approved policy will be informed to borrowers through various communication channels including website.
3. Borrowers need to make an application to ABHFL for resolution under this framework in writing.
4. The application should provide the details of the stress caused by Covid-19 and should be accompanied with requisite details/documents to support the claim.
5. The Resolution Committee shall evaluate the applications towards validating the borrower's claim.
6. The broad reasons which may be considered, inter alia, are:
 - a. Job-loss
 - b. Delay in salary / business receipts
 - c. Closure / decline in business
 - d. Loss of professional work
 - e. Bereavement in the family / key employees/staff
 - f. Temporary cash flows issues due to additional expenditure
 - g. Financial impact due to medical expenditure
 - h. Any other reason caused by Covid-19
7. Towards evaluating the applications, the Resolution Committee can decide on obtaining additional documents/information to ascertain the impact of Covid-19. These can include and not limited to, MSME/Udyam registration, bank statements, financial statements and returns.
8. The resolution plans may include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower.
9. Resolution Committee may design standardized templates for evaluating and deciding on the applications.
10. ABHFL shall communicate the decision on the application in writing to the applicant within 30 days of receipt of such applications.
11. Where the Resolution Committee decides to consider the application, it may increase the interest rate on the loan considering the increase in risk as well as the provisioning requirements.

12. The Resolution Committee may also seek additional collateral/covenants/guarantee from borrower under this resolution framework.
13. For applications considered favourably, the communication shall be in the form of a sanction letter detailing all terms and conditions of the resolution.
14. The Resolution Committee shall ensure that the timelines for invocation and implementation of the resolution as communicated by RBI are adhered to.

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