

Resolution Framework 2.0 – Policy on Resolving Covid-19 Related Stress

Svamaan Financial Services Pvt. Ltd.

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Brief Background

RBI had notified COVID-19 Regulatory Package on 27.03.2020 valid up to 31.05.2020 in view of the Covid-19 pandemic and extended the scheme up to 31.08.2020. RBI had also introduced a framework for resolution of stress for COVID-19 impacted borrowers, vide circular no. RBI/2020-21/16/DOR.No.BP.BC/3/21.04.048/2020-21 dated 6th August 2020 (new COVID Stress resolution framework).

Prolonged COVID pandemic impact with second wave and the associated economic fallout due to containment measures adopted at local/ regional levels to check the spread of the pandemic have created uncertainties and has impacted the recovery process in the economy. With the objective of alleviating the potential stress to the borrowers, Reserve Bank of India (RBI), vide its notification RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22, dated May 5, 2021, announced 2.0 version of Resolution Framework for addressing COVID-19 Related Stress.

The current policy has been designed and applicable to all eligible accounts of Svamaan Financial Services Pvt. Ltd. ("SFSPL") in adherence to the above mentioned "Resolution Framework 2.0 for COVID-19-related Stress".

Scope and Applicability of the Policy

- This resolution framework for COVID-19 related stress is applicable for borrowers who are classified as standard with SFSPL, as on 31st March 2021
- Individuals who have availed of loans and advances for business purposes and to whom SFSPL has an aggregate exposure of not more than INR 25 crore as on March 31, 2021
- Advances to individuals and small businesses who have not availed any resolution in terms of the Resolution Framework 1.0
- For individuals and Small Businesses, where resolution plan has been implemented in terms of the Resolution Framework 1.0 with less than 24 months of moratorium, increasing the period of moratorium / extension of residual tenor up to maximum of 24 months
- The borrowers should have been affected by Covid-19 pandemic and fulfil any of the below conditions:
 - Earnings/ income of the borrower has been reduced
 - Reduction / suspension of salary during the lockdown period
 - Job loss / closure of business
 - Increased family expenses due to Covid-19 impact
 - Closure during lockdown / reduced activity of units / shops / business establishments

1. Invocation of Resolution Process

- The resolution process under this window shall be treated as invoked when the lending institution and the borrower agree to proceed with the efforts towards finalizing a resolution plan to be implemented in respect of such borrower
- In respect of applications received by SFSPL from their customers for invoking resolution process under this window the decision on the application shall be communicated to the applicant by SFSPL within 30 days of receipt of such applications

- The last date for invocation of resolution permitted under this window is September 30, 2021

2. Features of Resolution Plan and Implementation

- The resolution plans may inter alia include:
 - Rescheduling of payments / Balance tenure
 - Conversion of any interest accrued, or to be accrued, into another credit facility
 - Granting of moratorium, based on an assessment of income of the borrower
- 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
- The resolution plan should be finalized and implemented within 90 days from the date of invocation of the resolution process under this window
- The resolution plan shall be deemed to be implemented only if all the following conditions are met:
 - all related documentation, including execution of necessary agreements between SFSPL and borrower are completed 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 SFSPL; and,
 - borrower is not in default with SFSPL if borrower has been provided restructuring under Resolution Framework 1.0

3. Asset Classification and Provisioning

- 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
- The subsequent asset classification for such exposures will be governed by the criteria laid out in the RBI Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances or other relevant instructions as applicable to specific category of lending institutions ("extant IRAC norms")
- In respect of borrowers where the resolution process has been invoked, SFSPL can 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

- SFSPL 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 SFSPL post implementation (residual debt)
- 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
- The provisions required to be maintained under this window, 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

4. Convergence of the norms for loans resolved under Resolution Framework 1.0 for Covid- 19

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, SFSPL is permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to maximum of 2 years.

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. This modification shall also follow the invocation and implementation timelines as specified above.

For loans where modifications are implemented in line with above guidelines, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0

Disclosures and Credit Reporting

- The number of borrower accounts where modifications were sanctioned and implemented in terms the Resolution Framework 2.0, and the aggregate exposure of the Company to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021
- The Company shall make the required disclosures in their annual financial statements, along with other prescribed disclosures
- The credit reporting by SFSPL in respect of borrowers where the resolution plan is implemented under this window shall reflect the “restructured due to COVID19” status of the account

Annexure

Format for disclosures to be made in the quarters ending September 30, 2021 and December 31, 2021

Format A

Sl. No	Description	Individual Borrowers		Small businesses
		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			