**DOMBIVLI NAGARI SAHAKARI BANK LTD**

**MULTI-STATE SCHEDULED BANK**

**CREDIT DEPT. CENTRAL OFFICE**

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**Date: 05.06.2021**

**CENTRAL OFFICE CIRUCULAR NO. : 33**

**CREDIT DEPARTMENT CIRCULAR NO. 15**

To,

All the Staff members,

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

1. 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”) and our consequent circulars issued by our Bank vide its Central Office Circular No. 100, Credit Department Circular No. 41 dated 29.10.2020 on “Bank Policy for Restructuring of Advances for other corporate exposures” including MSME having exposures above Rs. 25 Crores from Banking System and also for personal loans / individual loans (Resolution of Stressed Assets). Bank had, provided a window to enable C.O./ Branches 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.

2. 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 by Reserve Bank of India. These set of measures are broadly in line with the contours i.e. outlines of the Resolution Framework - 1.0, with suitable modifications.

3. [Part A](https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12085) of this circular pertains to requirements specific to resolution of advances to individuals and small businesses and [Part B](https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12085) pertains to working capital support for: (i) individuals who have availed of loans for business purposes, and (ii) small businesses, where resolution plans were implemented previously. [Part C](https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12085) lists the disclosure requirements for the lending institutions with respect to the resolution plans implemented under this window.

4. Any resolution plan implemented in breach of the stipulations of this circular shall be fully governed by the [Prudential Framework for Resolution of Stressed Assets issued on June 7, 2019](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11580&Mode=0) (“**Prudential Framework”**) and Paragraph 2.2.7.21 of the Master Circular – Income Recognition Asset Classification Provisioning and other Related Matters – UCBS dated 01/07/2015 issued by Reserve Bank of India for Urban Co-operative Bank would continued to be applicable. The copy of circular attached herewith for your perusal and reference which is to be followed by Branches/ C.O.

5. The C.O/ Branches of the Bank are permitted to offer a limited window to individual borrowers and small businesses to implement resolution (restructuring etc.) plans in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan subject to the conditions specified hereafter, only upon following the below mentioned procedure with respect to various aspect to be observed by C.O. / Branches in relation to resolution plan (restructuring etc.)

A. Resolution of Advances to Individuals and Small Businesses

i) To decide eligibility of borrower to apply for restructuring.

ii) Procedure to be followed while restructuring.

iii) Invocation of resolution process

iv) Permitted features of resolution plans and implementation

v) Asset classification and Provisioning

vi) Convergence of the norms for the loans resolves previously

B. Working capital support for Small Businesses where resolution plans were implemented previously.

C. Disclosures and Credit Reporting.

**A. Resolution of advances to individuals and small businesses**

**I Eligibility of Borrowers to apply for restructuring**

The individuals and small business borrowers who are fulfilling below mentioned criterias will be eligible to apply for resolution framework (restructuring etc.)

1. The relief shall be granted to those borrowers which has been mentioned in A and B category of this circular. The borrowers mentioned in this two categories will be eligible provided the Bank i.e. Central Office / Branches satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19.

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

3. The following borrowers shall be eligible for the window of resolution (Restructuring etc.) to be invoked by the Bank:

a. Individuals who have availed of personal loans (as defined in the Reserve Bank of India [Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018](https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11199&Mode=0) on “XBRL Returns – Harmonization of Banking Statistics”), excluding the credit facilities provided by Bank to their own personnel/staff. The definition of personal loan as per our circular is mentioned in Annexure I which is attached herewith.

b. Individuals/ lending institutions who have availed of loans and advances for business purposes and to whom the Bank have aggregate exposure of not more than Rs.25 crore as on March 31, 2021. The definition of Credit Exposure is mentioned in Annexure I.

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 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 categories listed in sub-clause (a) to (e) of the clause 4 of the C.O. circular No. 100 Credit Department Circular No. 41 dated 29.10.2020 and as per 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”) sub-clauses (a) to (e) of the Clause 2 of the to the Resolution Framework 1.0. The copy of the Reserve Bank of India circular is enclosed herewith for your perusal and to determine the borrowers/ credit facilities which are not eligible for restructuring etc. as per above mentioned circulars.

The above circular should be read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020). The Frequently asked Questions (FAQs) on Resolution Framework for COVID 19 related stress (Revised on December 12) which is provided by Reserve Bank of India, the copy of the same is enclosed herewith for perusal and reference which clarifies answers to the Questions which may arise while implementing the guidelines issued by Reserve Bank of India/ Our Bank. The C.O/ Branches are advised to follow the same wherever required.

d. 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 at Clause VI (1) below.

**II. Procedure for Restructuring**

If any of the borrowers are satisfying the above 3 conditions then the application for restructuring from such borrowers shall be obtained and following the below mentioned procedure to be followed.

The restructuring of MSME borrowers should be done as per the policy of the Bank. The circular in respect of the same will be issued shortly, upon approving such policy by Board of Directors of our Bank.

**III. Invocation of resolution process**

1. The implementation of viable resolution plans for eligible borrowers under this framework will be done as per the policy of the Bank. The circular in respect of the same will be issued shortly, upon approving such policy by Board of Directors of our Bank.

2. 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 the Bank from their customers for invoking resolution process under this circular, the assessment of eligibility for resolution as per the instructions contained in this circular and Board approved policy to be put in place which will be circulated shortly will have to be completed and the decision on the application shall be communicated in writing to the applicant by the lending institutions within 30 days of receipt of such applications, but not later than September 30, 2021.

3. The decision to invoke the resolution process under this circular shall be taken by Bank having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.

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

**IV. Permitted features of resolution plans and implementation**

1. The resolution plans implemented under this circular may inter alia include rescheduling of payments, 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.

2. 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..

3. The resolution plan should be finalized and implemented within 90 days from the date of invocation of the resolution process under this circular. The resolution plan shall be deemed to be implemented only if following conditions are satisfied.

**V. Asset classification and provisioning**

1. 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.

2. 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](https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9908) or other relevant instructions as applicable to specific category of lending institutions (“extant IRAC norms”) circulars issued by the Bank from time to time in respect of the above.

3. In respect of borrowers where the resolution process has been invoked, Bank may 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.

4. The Bank 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 the lending institution 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.

5. 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.

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.

6. The provisions required to be maintained under this circular, 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.

**VI. Convergence of the norms for loans resolved previously**

1. In cases of loans of borrowers specified in Clause A (I) (3) above 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, Bank 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 the caps in Clause A(IV) (2) above, 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.

2. This modification shall also follow the timelines specified in Clauses A (III) (4) and A (IV) (3) above. For loans where modifications are implemented in line with Clause A (VI) (1) above, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.

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

22. In respect of borrowers specified at sub-clauses (b) and (c) of Clause 3 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, Bank may permitted, as a one-time measure, 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. The decision with regard to above shall be taken by Bank 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.

**C. Disclosures and Credit Reporting**

23. Bank publishing quarterly financial statements shall, at the minimum, make disclosures as per the format prescribed in [Format-X](https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12085) 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.

24. The number of borrower accounts where modifications were sanctioned and implemented in terms of Clause 21 above, and the aggregate exposure of the Bank to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.

25. The Bank that is required to publish only annual financial statements shall make the required disclosures in their annual financial statements, along with other prescribed disclosures.

26. The credit reporting by the Bank in respect of borrowers where the resolution plan is implemented under Part A of this circular shall reflect the “restructured due to COVID-19” status[1](https://rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12085) 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.

**General Manager and CEO**

**Format – X**

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

|  |  |  |  |
| --- | --- | --- | --- |
| **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 |   |   |   |

**Enclosures:**

1.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”)

2. The Frequently asked Questions (FAQs) on Resolution Framework for Covid-19 related stress.

**Annexure I**

Personal Loans: - Personal loan refers to loans given to individual and consists of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loan given for investment in financial assets (shares, debentures, etc.).

Consumer Credit: - Consumer Credit refers to the loans given to individuals, which consists of (a) loans for consumer durables, (b) credit card receivables, (c) auto loans (other than loans for commercial use) (d) personal loans secured by gold, gold jewellery, immovable property, fixed deposits (including FCNR (B)), shares and bonds etc., (other than for business/ commercial purposes), (e) personal loans to professionals (excluding loans for business purposes), and (f) loans given for other consumptions purposes (e. g., social ceremonies etc.). However, it excludes loan given to farmers under KCC. For risk weighting purposes under the Capital Adequacy Framework, the extant regulatory guidelines will be applicable

Credit Exposure:

(i) Credit exposure **shall include** –

* Funded and non-funded credit limits and underwriting and similar commitments,
* Facilities extended by way of equipment leasing and hire purchase financing, and
* Ad hoc limits sanctioned to the borrowers to meet the contingencies.

(ii) Credit exposure shall not include loans and advances granted against the security of bank’s own term deposits.

(iii) The sanctioned limit or outstanding whichever is higher shall be reckoned for arriving at credit exposure limit. Further, in case of fully drawn down term loans, where there is no scope of re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding for arriving at credit exposure limit.

(iv) In respect of non-funded limit, 100% of such limit or outstanding, whichever is higher, need to be taken into account for the purpose.