



***RESTRUCTURING POLICY -  
RESOLUTION FRAMEWORK 2.0 FOR  
COVID-19 RELATED STRESS***

## **Restructuring Policy - Resolution Framework 2.0 for COVID-19 Related Stress**

Reserve Bank of India, vide its Circular RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021 has issued the Resolution Framework 2.0 : Resolution of Covid-19 related stress of Individuals and Small Businesses. This is in succession to the 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").

Given that 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, RBI has provided, vide the aforementioned circular, the lending institutions to implement resolution plans in consonance with the borrowers in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan.

In line with this, lending institutions are expected to frame Board approved policies at the earliest (but not later than four weeks from the date of the aforementioned Circular), 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. The Board approved policy shall be sufficiently publicised and should be available on the website of the lending institutions in an easily accessible manner.

Pursuant to the guidelines issued by the Reserve Bank of India, this policy outlining the contours of resolution plans proposed to be implemented for eligible borrowers is being put up to the approval of the Board of Directors ("Board") of Five Star Business Finance Limited ("Company").

### **Borrower eligibility:**

1. Individuals who have availed of 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"), excluding the credit facilities provided by the Company to their own personnel/staff.
2. Individuals who have availed of loans and advances for business purposes and to whom the Company has aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
3. 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 Company has aggregate exposure of not more than Rs.25 crore as on March 31, 2021.
4. Borrowers whose accounts are classified as "Standard" as on March 31, 2021 i.e. borrowers who do not have more than 3 overdues as on March 31, 2021 shall be eligible for such resolution plans.
5. None of the borrowers should have availed of any resolution in terms of the Resolution Framework - 1.0
6. Borrowers should, in the opinion of the Company, have been impacted on account of COVID-19. The borrowers should have had or continue to experience financial stress on account of COVID-19.

**Resolution Plan:**

The Company proposes to provide the resolution plan in the form of moratorium towards EMI payments due for a period up to 6 months ("Moratorium Period") which could commence retrospectively from as early as the EMI due in the month of April 2021. The actual Moratorium Period shall be determined in consonance between the Company and the borrower. Consequently, the tenure of the loan shall be increased by the Moratorium Period provided to the borrower and the revised repayment schedule, after capitalisation of interest for the Moratorium Period shall be drawn up and provided to the borrower on implementation of the Resolution Plan. During the Moartorium Period, interest shall be charged on simple interest basis.

The revised repayment schedule shall be drawn up by increasing the tenure to the extent of Moratorium Period viz. if the Moratorium Period was 3 months, then the tenure of the loan shall be extended by 3 months ("Extended Tenure"). The number of EMIs due during the Moratorium Period and interest accrued during the Moratorium Period (along with further interest on the same) shall be paid towards the end of the loan tenure and will be split equally over the Extended Tenure.

However, the borrower shall have the flexibility to pay up the additional interest accrued during the Moratorium Period immediately after the end of the Moratorium Period or at any time during the tenure of the loan. The interest for the Moratorium Period would continue to accrue interest till the time the same is paid by the borrower.

The Company shall provide moratorium for the unpaid dues starting from the EMI due in the month of Apr 2021. If the borrower has had the cash flows to make the EMI payments in any of the months starting from Apr 2021, moratorium shall not be provided for the dues which have already been paid by the borrower.

Post the provision of moratorium to the borrower, the apportionment of the any amount received shall be made to any instalments that may be overdue as on the date of payment and in case of any surplus over and above the overdue instalment, such surplus shall be apportioned to principal outstanding, which would result in reduction of tenure. The customer will be given the benefit of interest for any amount apportioned to principal outstanding.

**Invocation of the Resolution Plan:**

The Company shall invite applications from eligible borrowers towards invocation and implementation of the Resolution Plan. The impact of COVID-19 on the cash flows of the borrowers shall be evaluated by the Company. If the Company's appraisal indicates financial stress to the borrower on account of COVID-19, the Company and the borrower may choose to invoke and implement the Resolution Plan.

The Company shall devise a standard format of the application form to be submitted by the borrower. The request in the specified for invocation of the Resolution Plan should have been received by the Company latest by 31<sup>st</sup> July.

Once the application is submitted by the borrower, the Company shall undertake a due diligence process to ascertain the impact of COVID-19 on the cash flows / incomes of the borrower. The due diligence may be undertaken by the branch officials / credit officials / customer care wherein they would reach out to the customer in person or over phone and ascertain the impact. The same shall be documented and kept as part of the borrower file.

The decision of the Company to proceed with the Resolution Plan or not shall be communicated to the borrower not later than 30 days from the receipt of the borrower request for such resolution.

### **Implementation of the Resolution Plan:**

Once the request is received from the borrower, and the Company has completed its due diligence process and established the need for implementing the Resolution Plan, the Company, in consonance with the borrower, would ascertain the Moratorium Period to be provided to the borrower. As already stated, the Moratorium Period can commence retrospectively from the EMI due in Apr 2021 and could be provided for up to 6 months from thereon. Once the borrower has agreed, the Resolution Plan shall be implemented through execution of necessary documentation, as required by the Company.

The Resolution Plan shall be implemented within 90 days from the date of invocation of the resolution process.

#### **A) 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 lending institutions 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).

#### **B) Write back of Provisions:**

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.

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.

#### **C) Disclosures and Credit Reporting**

The number of borrower accounts where modifications were sanctioned and implemented in terms of the aforementioned RBI Circular, and the aggregate exposure of the lending institution to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.

The credit reporting by the lending institutions in respect of borrowers where the resolution plan is implemented 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.