

TVS Credit Services Limited

Policy for Implementing Resolution Plan under RBI guidelines (Resolution Framework 2.0) for accounts with stress due to Covid-19

1. Background

The Reserve Bank of India vide its circular RBI/2020-21/16 (DOR.No.BP.BC/3/21.04.048/2020-21) and RBI/20020-21/17 (DOR No. BP. BC/4/21.04.048/2020-21) dated August 6, 2020 had provided a window (**Resolution Framework – 1.0**) to enable lenders 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.

The resurgence of Covid-19 pandemic in India in the recent weeks and in view of the containment measures being taken by the government to check the spread of the pandemic, RBI has observed that situation may impact the recovery process and create new uncertainties. Hence, with the objective of alleviating the potential stress to individual borrowers and small businesses and MSMEs, RBI has announced the **Resolution Framework 2.0**.

This policy has been prepared with reference to RBI circular RBI/2021-22/31 (DOR.STR.REC.11/21.04.048/2021-22) and RBI/2021-22/32 (DOR.STR.REC.12/21.04.048/2021-22) dated May 05, 2021 on Resolution Framework 2.0.

The RBI circular has laid down the conditions to determine the eligibility of borrowers and such other norms to be ensured while implementing the resolution plan under Resolution Framework 2.0. This policy will enable the Company to identify eligibility after considering various other relevant parameters and accordingly achieve the objective of the RBI circular while ensuring the Company's interest are also protected.

2. Identification of relevant RBI framework and part of the policy based on eligible pool

The resolution plan under the new framework (2.0) can be extended only to the borrowers that are less than 90 DPD as on March 31, 2021 and continue to remain standard as on the date of invocation. The Circular Resolution Framework 2.0 for COVID-19-related Stress (referred to as May 05, 2021, Circular) extends the resolution option to individual borrowers and small businesses which is covered in Part 3 of this policy and MSME borrowers with exposure from all lending institutions not more than 25 crores** are covered in Part 4 of this policy.

3. Proposed policy norms in line with RBI circular (Resolution Framework 2.0) – For Individuals and Small Businesses

	Description
Applicability	A) Personal loans given to individuals. Such loans include <ul style="list-style-type: none"> ▪ Two-wheeler for personal use ▪ Used Car for personal use

	<ul style="list-style-type: none"> ▪ Personal loans (including asset based personal loans) ▪ Consumer Durables ▪ Cross Sell loans <p>B) Loan given to individuals for business purpose where aggregate exposure of all lending institutions is \leq Rs 25 crores** as on March 31, 2021. Such loans includes i) Commercial Vehicle loans / Used Commercial vehicle loans / Auto loans given for business and ii) Business loans</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 lending institutions have aggregate exposure of not more than Rs.25 crores** as on March 31, 2021.</p>
Eligibility	<p>The eligible borrower for resolution under this framework are those</p> <ul style="list-style-type: none"> ▪ Having stress on account of COVID 19 and ▪ Classified as standard as on March 31, 2021 (Less than 90 days past due). ▪ Loans restructured as per Resolution Framework 1.0 (RBI Circular issued in August 06, 2020) 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. Modification of such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to the cap of 2 years.
Exclusions	<ul style="list-style-type: none"> ▪ Loans that are given to staff and employees ▪ Farm credit including New Tractor loans, Used tractor loans and Engine Loans given to Farmers ▪ Compromise settlements, such as agreeing to a substantial sacrifice by the lender, mostly resulting into waiver of outstanding principal.
Reference Date	The reference date for outstanding amount of debt that may be considered for resolution shall be March 31, 2021
Invocation Date	Date of invocation of resolution shall be date on which both borrower and the company have agreed to proceed with resolution plan. Resolution 2.0 shall be invoked not later than September 30, 2021
Invocation	<p>Invocation can be completed only once the borrower and the company have agreed to proceed with a resolution plan under this framework which can be done by either physical or digital channels.</p> <p>Invocation can be done by one of the following channels</p> <ul style="list-style-type: none"> ▪ Written Application to the company giving consent form and acknowledgment issued by the company

** Modified to Rs 50 crs as per RBI circular dated 4th Jun 2021

	<ul style="list-style-type: none"> ▪ Tele-communication acceptance (SMS, Whatsapp) between the borrower and the Company. <p>In respect of applications received by the company from the customers for invoking resolution process under this window, the decision on the application shall be communicated to the applicant by the company within 30 days of receipt of such applications.</p> <p>The decision to invoke the resolution process under this window shall be taken by the company independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.</p> <p>The final decision to extend restructuring /moratorium shall be at the discretion of the company.</p>
Implementation Period	The Resolution Plan must be implemented within 90 days from the date of invocation.
Restructuring Options	<ul style="list-style-type: none"> ▪ Rescheduling of payments – Extension of loan tenor ▪ Providing Moratorium on payments ▪ Covid loans for such amount as assessed by company ▪ Rescheduling of payments – Structured EMI ▪ Combination of above <p>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.</p>
Working Capital Support	<p>For applicable loans specified under (B) and (C) above where resolution plans had been implemented in terms of the Resolution Framework – 1.0 (RBI Cir dated August 06,2020), lending institutions are 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.</p> <p>The decision regarding above shall be taken by lending institutions 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.</p>
Documentation	<p>Documents to identify stress due to COVID (Annexure 1)</p> <p>Addendum to Original agreement for acceptance of Resolution Plan and changes agreed in principal loan agreement and sanction letter</p>
Asset Classification	The Eligible borrower account should continue to be classified as standard till date of implementation of resolution under this framework.

If a resolution plan is implemented in adherence to the provisions of this facility, 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 plan.

Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, may be classified as 'standard asset' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities 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 the additional finance or the rest of the credit facilities, whichever is worse.

Provisioning and Reversal

Loan	Provisioning Norms
Personal Loan and Loans to Small Businesses	Higher of 10% of residual debt or the provisions held as per the extant IRAC norms immediately before implementation. The additional provisions maintained by lending institutions under April 17, 2020 & August 06, 2020 circular to the extent not already reversed, may be utilised for meeting the provision requirements in all cases under this facility.

IF RP plan not implemented within 90 days from invocation - Provisions as per prudential framework shall be required to be maintained

Loan Category	Provisioning Reversal Amount	Reversal Norms
Personal Loan & Loans to Small Business	50% of provision can be written back	On repayment of 20% of residual debt without slipping to NPA post implementation of plan
	Balance 50%	On another repayment of 10% of residual debt without slipping to NPA post implementation of plan
Loans to Small Business	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.	

	For loans restructured under Resolution Framework 1.0 (RBI circular dated August 06,2020) and where modifications are implemented in line with the conditions provided under Resolution Framework 2.0, the instructions regarding asset classification and provisioning shall continue to be as per the Resolution Framework – 1.0.
System for redressing grievance of borrowers	Customer can reach out to Customer Service through voice and non-voice channels as mentioned in the website. The company shall provide suitable grievance redressal mechanism to serve the customers to their complete satisfaction.
Disclosure and Credit Reporting	<ul style="list-style-type: none"> ▪ Quarterly disclosure in prescribed Format-X in financial statements for quarter ended Sept'2021 and December'2021. ▪ Half yearly disclosure in Format B commencing Sep 2021 till earlier of: <ul style="list-style-type: none"> ▪ All exposure under RP extinguished ▪ Completely slippage to NPA. ▪ Quarterly disclosure of aggregate exposure for cases resolved under RF 1.0 and RF 2.0 starting from June 30, 2021. ▪ Annual disclosure is mandatory. ▪ Borrowers where the RP is implemented under this facility (other than Working capital support for individuals and small businesses specified) where resolution plans were implemented previously shall reflect the “restructured due to COVID-19” status of the account.

4. Detailed Norms on Resolution Plan 2.0 (RBI Cir dated 05.05.2021) – Loan to MSMEs

Details	Loan to MSMEs
Applicability	MSME borrowers whose aggregate exposure to lending institutions collectively is <=25 crores** as on March 1, 2020. Such loans include: Commercial Vehicle loans SME loans
Eligibility	Having stress on account of COVID 19 The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the investment and turnover criteria as specified in the Gazette Notification S.O. 2119 (E) dated June 26, 2020. Udyam Registration is mandatory. If the borrower is not registered in the Udyam Registration portal, 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. The borrower's account was a 'standard asset' as on March 31, 2021. 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.
Exclusions	Accounts which have already been restructured in terms of the circular dated January 1, 2019, circular dated February 11, 2020 and circular dated August 06, 2020 shall be ineligible for restructuring under this circular.
Reference Date	The reference date for outstanding amount of debt that may be considered for resolution shall be March 31, 2021
Invocation Date	The restructuring of the borrower account shall be invoked not later than September 30, 2021
Implementation Period	The restructuring of the borrower account is implemented within 90 days from the date of invocation.
Restructuring Options	<ul style="list-style-type: none"> ▪ Rescheduling of payments – Extension of loan tenor ▪ Providing Moratorium on payments ▪ Covid loans for such amount as assessed by company ▪ Rescheduling of payments – Structured EMI ▪ Combination of above
Working Capital Support	Loans which were restructured in terms of the earlier MSME restructuring circulars (circular dated January 1, 2019, February 11, 2020 and August 06, 2020), the company may provide, 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.

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	<p>The decision with regard to above shall be taken by the company by September 30, 2021.</p> <p>The reassessed sanctioned limit / drawing power shall be subject to review by the company at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.</p>
Invocation	<p>Invocation can be completed only once the borrower and the lending institution have agreed to proceed with a resolution plan under this framework</p> <p>Invocation can be done by one by a Written Application/telecommunication mode to the company.</p> <p>The decisions on applications received by the lending institutions from their customers for invoking restructuring under this facility shall be communicated to the applicant by the company within 30 days of receipt of such applications.</p> <p>The decision to invoke the restructuring under this facility shall be taken by the company independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.</p> <p>The final decision to extend restructuring /moratorium shall be at the discretion of the company.</p>
Asset Classification	<p>Asset classification of borrowers classified as standard may be retained as such, whereas the accounts which may have slipped into NPA category between April 01, 2021 and date of implementation may be upgraded as ‘standard asset’, as on the date of implementation of the restructuring plan. The asset classification benefit will be available only if the restructuring is done as per provisions of this circular.</p>
Provisioning and Reversal	<p>For accounts restructured under these guidelines (Resolution Framework 2.0), the company shall maintain a provision of 10 percent of the residual debt of the borrower.</p>
Disclosure and Credit Reporting	<p>Appropriate disclosure in Financial statements, under note on Accounts, related to MSME Accounts restructured</p>

Any resolution Plan which are not eligible for Resolution Plan 2.0 issued by RBI on 5th May’21 are eligible for Restructuring under 7th Jun’19 circular and as per approved policy of the company. The above restructuring policy will be effective from 6th May 2021.

Annexure 1 : Documents for Identification of Stress

Class of Borrower	Documents that be used for determining Stress due to COVID
Salaried Class Borrower	<ol style="list-style-type: none"> 1. Letter from company on company letter head indicating job loss or pay cut or deferment of salary (if available) OR 2. 02 Payslips for period during COVID and prior to COVID to indicate at least 15% loss of pay (if available) <p>If above documents are not available, Self-Declaration of financial stress due to COVID.</p>
Self-employed/ business (Other than Salaried)	<ol style="list-style-type: none"> 1. If the borrower has filed GST Returns, returns/turnover can be observed to determine if the borrower faced any stress and there is clear decrease to the extent of 30% in turnover as compared to pre-covid levels 2. In case GST returns are not available, cash flows can be analysed using bank statement for similar periods prior to COVID OR 3. Books of accounts, if available (optional) OR 4. Turnover passed through the account during current year and Pre COVID-19 Period may also to be taken into consideration. (optional) <p>If above documents are not available, Self-declaration submitted by the borrower clearing identifying the reasons for stress and impact on the business</p>

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			