

**AU Small Finance Bank**  
Resolution Framework 2.0 of COVID-19  
related Stress for Individuals, Small  
Businesses

### 1. Background:

The Reserve Bank of India vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 on “Resolution Framework for COVID-19-related Stress” (“Resolution Framework – 1.0”) dated 6<sup>th</sup> August, 2020, provided a window to enable lenders to implement a resolution plan in respect of eligible corporate exposure without change in ownership, while classifying such exposures as standard, subject to specified conditions.

The resurgence of COVID-19 pandemic in India in the recent weeks once again 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, Resolution Framework - 2.0 was announced.

### 2. Reference RBI Circulars:

The appended note is prepared basis the framework advised under RBI Circular:

- Circular RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 on “Resolution Framework – 2.0: Resolution of COVID-19 related Stress of Individuals and Small Businesses” dated 5<sup>th</sup> May 2021.

### 3. Applicability:

The appended note is applicable for providing Resolution Framework 2.0 for loans extended to individual borrowers and small businesses.

## Resolution Framework 2.0 for Individual and Small Businesses

(Reference RBI Circular RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 on ‘Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses’)

### 1. Eligible Borrower Category:

- Individuals who have availed Personal Loan:** Personal loan category covers:
  - Consumer Credit:
    - Auto Loan – utilized for purposes other than commercial use
    - Loan against property to Salaried individuals
    - Gold Loan
    - Personal loan to Professionals (excluding loan for business purpose)
  - Housing Loan
  - Education Loan
  - Loans given for investment in financial assets (shares, debentures, etc.)
- Individual who has availed loans and advances for business purpose and their aggregate exposure from all lending institutes is less than INR 50 Crore on 31<sup>st</sup> March, 2021.
- Small Businesses:** Non individual entities including those engaged Retail and Wholesale trade, other than those classified as MSME as on 31<sup>st</sup> March 2021, their aggregate exposure from all lending institutes is less than 50 Crore as on 31<sup>st</sup> March, 2021.

## 2. Specific Conditions applicable on Borrower Category

- i. Borrower account should not have availed of any resolution in terms of Resolution Framework-1.0, if borrower has availed resolution under 1.0 framework, then below conditions shall be fulfilled:
  - a. Borrowers who have availed resolution under 1.0 framework are eligible under 2.0 if they have not availed any moratorium or tenure of moratorium was less than 2 years or extension of residual tenor was less than 2 years, Bank may increase the period of moratorium or residual tenure can be extended up to maximum 2 years.
  - b. 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.
  - c. Asset classification and provisioning shall continue to be as per Resolution Framework- 1.0 i.e. 10% of residual debt.
- ii. Borrower account should have been classified as Standard by the bank as on 31<sup>st</sup> March 2021

## 3. Non-Eligible Borrower/Credit facility for Individual and Small Business (Section 6.1)

Following categories of borrowers / credit facilities shall not be eligible for a resolution plan under this framework.

- i. MSME borrowers whose aggregate exposure to lending institutions collectively, is ₹ 50 crore or less as on March 1, 2020.
- ii. Farm credit as listed in Paragraph 6.1 of Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016 (as updated) or other relevant instructions as applicable to specific category of lending institutions.
- iii. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
- iv. Exposures of lending institutions to financial service providers as defined in sub-section (17) of Section 3 of the Insolvency and Bankruptcy Act, 2016.
- v. Exposures of lending institutions to Central and State Governments; Local Government bodies (eg. Municipal Corporations); and body corporates established by an Act of Parliament or State Legislature.
- vi. Exposures of housing finance companies 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.
- vii. Credit facility and advances extended by bank to its own staff

## 4. Permitted Features of resolution plan

- i. Restructuring of borrowers to be done for tenure of maximum 2 years and overall tenure can be rescheduled accordingly.
- ii. Rescheduling of payments
- iii. Any interest accrued or to be accrued may be converted into another credit facility or total outstanding can be rescheduled in single loan.

- iv. Granting of moratorium for maximum tenor of two years, the overall tenor of the loan may also get modified commensurately.
- v. Extension of residual tenor of loan facility, with or without moratorium shall be maximum up to 2 years.

#### **5. As per the framework guidelines:**

- i. Bank is liable to communicate their decision on extension of restructuring to the applicant in writing within 30 days of receipt of such borrower's applications and this date will be treated as date of invocation.
- ii. Last date for invocation of resolution permitted under the window is till 30<sup>th</sup> September 2021.
- iii. The restructuring of the borrower account is to be implemented within 90 days from the date of invocation.

#### **6. Implementation of Resolution Plan**

The resolution plan shall be deemed to be implemented only if all of the following conditions are met:

- i. All related documentation, including execution of necessary agreements between Bank and borrower and collaterals provided, if any, are completed by the Bank concerned in consonance with the resolution plan being implemented.
- ii. Restructuring is implemented in system and changes in the terms of conditions of the loans get duly reflected in the books of the Bank.
- iii. Borrower is not in default with the Bank as per the revised terms

#### **7. Working capital support for small business where resolution plans were implemented previously**

- i. Individuals who have availed of loans and advances for business purposes and small businesses including those engaged in retail and wholesale trade, other than classified as MSME, where resolution plans had been implemented in terms of the Resolution Framework – 1.0, Bank may, as a one-time measure, 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. Same shall be invoked 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.
- ii. Borrowers provided relief under these instructions shall be reviewed with regard to their justifiability on account of the economic fallout from COVID-19.

#### **8. Working capital support for small business where resolution plans were implemented previously**

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