

Community Finance Pvt. Ltd.

Policy on Resolution Framework of Stressed Assets on Account of Covid- 19 – 2.0

Background

The resurgence of the Covid – 19 pandemic in India since March 2021 has been much more intense than what we witnessed last year. The daily peak load as compared to the 1st wave is already at 4 times and the mortality rate is also more than 3 times that of the 1st wave. Due to this the State Governments have taken containment measures, including lockdowns to check the spread of the pandemic.

RBI Notification on Resolution of the Economic Stress.

Considering the above, with the re-emergence of asset quality stress, RBI with the intent alleviate the stress to individual borrowers and small businesses has announced a set of measures vide their Circular No. **RBI/2021-22/31 - DOR.STR.REC. 11/21.04.048/2021-22 dated 5th May 2021**, which are broadly in line with the contours of Resolution Framework – 1.0, with a few modifications.

As per the RBI Notification, the lending institutions shall frame Board approved policies 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 Covid19. The Board approved policy shall, *inter alia*, detail the eligibility of borrowers in respect of whom the lending institutions may 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. The Board Approved Policy should be approved before 2nd June 2021 and implemented before 30th September 2021.

Community Finance Pvt. Ltd., Board Approved Plan.

The Board of Directors of Community Finance Pvt. Ltd. (CFPL) on the basis of the RBI Notification dated 5th May 2021 have approved the following Resolution Plan on 18th May 2021, for their borrowers who are facing economic stress on account of Covid19 pandemic.

The business of CFPL is divided into 2 segments: -

1. Self Employed and Salaried Segment

This segment consists of customers who are engaged in small business in manufacturing, services, trading. They have business establishment and servicing to local catchment area, mainly the semi urban and rural segments. Their success depends on the locality, population, service quality and competition. Typically, more than one family members are involved in this business to avoid employee cost. A few customers would be employed with small and medium scale enterprises or hold Government jobs. These customers are given a loan with property as a collateral.

2. Mass Segment

The target market is rural / semi urban customers who today are deprived of proper credit facilities. The aim is to understand the household income of the customers and their financial needs. Set up a credit limit for each and every customer / house hold and then help them grow income / enrich lifestyle by making available appropriate credit facilities. To ensure proper reach to customers, customers are grouped basis certain characteristics. These segmentations help us to make available a common template to assess income and expenses and the requirements of the customers.

CFPL Guidelines on Resolution Plan

The CFPL Board Approved Policy is as follows: -

1. The borrowers accounts should not have availed of any resolution in terms of Resolution Framework – 1.0 subject to the following:-
 - a. In cases where resolution plans had permitted no moratoria or moratoria of less than 2 years or extension of the residual tenor by a period of less than 2 years , such borrowers can be given a period of 2 years taking into consideration Resolution Framework – 1.0 & 2.0.
2. CFPL will ensure that the resolution under this facility is extended only to borrowers having stress on account of Covid19 pandemic.
3. This policy will be applicable to all eligible borrowers / customers, under the two business segments of CFPL - Self Employed & Salaried Segment and Mass Segment. However, credit facilities provided to our own personnel/staff shall not be eligible for resolution under this framework.
4. Only those borrower accounts shall be eligible for resolution under this framework which were classified as Standard with CFPL as on 31st March 2021.
5. The eligible borrowers' accounts will continue to be classified as Standard till the date of invocation of resolution under this Resolution Plan. For this purpose, the date of invocation shall be the date on which both the borrower and lending institution have agreed to proceed with a resolution plan under this framework. 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.
6. Invocation of the Resolution under the Resolution Plan – Covid 19, latest by 30th September 2021.

7. Implementation of the Resolution Plan, within 90 days of the agreement being signed by the borrower and the lender.
8. The resolution plans *inter alia* include rescheduling of payments, conversion of any interest accrued, or to be accrued, into another credit facility, or, granting of moratorium, based on an assessment of income streams of the borrower, subject to a maximum of two years, taking into consideration Resolution Framework 1.0 & 2.0. Correspondingly, the overall tenor of the loan may also get modified commensurately. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.
9. Under this Resolution Plan the following conditions should be met:
 - a. all related documentation, including execution of necessary agreements between lending institutions and borrower and collaterals provided, if any, are completed by the lenders concerned in consonance with the resolution plan being implemented.
 - b. the changes in the terms of conditions of the loans get duly reflected in the books of the lending institutions; and,
 - c. borrower is not in default with the lending institution as per the revised terms.

The above Resolution Plan has been finalized keeping in mind the nature of the 2 segments where CFPL does business – Self Employed & Salaried Segment and the Mass Segment.

Disclosures and Credit Reporting

The Disclosures and Credit reporting will be done once in year as defined in the RBI Notification dated 5th May 2021 along with the Annual Financial Statements, in the prescribed formats. The credit reporting shall reflect “restructured due to Covid – 19” for all such accounts.