



Resolution Framework For COVID-19-related Stressed Assets

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Policy for Restructuring of Loans affected By Covid- 19 related stress

Background

This policy has been formulated in compliance with the directives issued by Reserve Bank of India (RBI) as enunciated in its Circular No. DOR.STR.REC.11/21.04.048/2021-2 for Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses Dated May 05, 2021.

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, a set of measures are being proposed by Reserve Bank of India. These set of measures are broadly in line with the contours of the Resolution Framework - 1.0 on “Resolution Framework for COVID-19-related Stress” Dated August 6, 2020 , with suitable modifications. RBI has also provided a principle-based resolution framework for addressing borrower defaults under a normal scenario through its circular on Prudential Framework (Ref. No.- RBI/2018-19/ 203 DBR.No.BP.BC.45/21.04.048/2018-19, dated 07th June, 2019 -Prudential Framework for Resolution of Stressed Assets - Directions 2019

The Resolution Framework-2.0 has Part A which pertains to requirements specific to resolution of advances to individuals and small businesses and Part B 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.

Resolution Framework for COVID-19-Related Stress in loans to Individuals and Small Businesses.

1. Objective and Regulatory Guidelines:

- 1.1** The economic fallout on account of the Covid-19 pandemic has adversely impacted financial viability of many borrowers, otherwise having a good track record due to their debt burden becoming disproportionate relative to their cash flow generation abilities.
- 1.2** Considering the above, with the intent to facilitate revival of the eligible borrowers, the RBI has provided a window under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible borrowers while classifying such exposures as Standard, subject to specified conditions vide the Circular on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses. This is in addition to the circular on Resolution Framework-1.0 which was issued on August, 6, 2020.
- 1.3** The guidelines for Resolution Framework-2.0 is applicable to the individual and small businesses which are impacted due to Covid -19 related stress. The guidelines split eligible borrowers into two categories. The first is restricted to Personal loans and Small Business and the second pertains to resolution for the borrowers with working capital facilities.
- 1.4** The objective of this policy is to offer resolution framework for customers who have been adversely affected by the COVID – 19 pandemic..

2. Borrower Qualified for Restructuring:

The guidelines split eligible borrowers into two categories. The first is restricted to Personal loans and Small Business and the second pertains to resolution for the borrowers with working capital facilities.

2.1 Personal loans and Small Business

For this purpose, Personal loans refer to loans given to individuals. Personal loans for the resolution purpose under this policy shall have the same meaning as defined in the Circular DBR.No.BP.BC.99/08.13.100/2017-18 dated January 4, 2018 on “XBRL Returns – Harmonization of Companying Statistics”. Accordingly, Personal Loans will include:

a. Consumer Credit which includes-

- Loans for consumer durables;
- Credit Card receivables;
- Auto loans (other than loans for commercial use);
- Personal loans secured by gold, gold jewellery, immovable property, fixed deposits (including FCNR(B)), shares and bonds, etc., (other than for business / commercial purposes); and
- Personal loans to professionals (excluding loans for business purposes), and
- Loans given for other consumption purposes (e.g., social ceremonies, etc.).

b. Education Loan;

c. Loan Against Property, Housing Loan including Home Improvement Loan-

- d. Loans given for creation/ enhancement of immovable assets (e.g., housing, etc.); and
- e. Loans given for investment in financial assets (shares, debentures, etc.).

Individual borrowers impacted by COVID-19 would, inter alia, include those whose activities/ businesses were adversely affected by like:

- Job loss,
- Drop in income of individuals/family impacting the repayment capacity,
- Disruption arising out of lockdown, containment zones and other restrictions
- Non-availability or inadequate availability of inputs/raw materials required for business activity,
- Any other factors arising due to COVID (which has impacted the financial /repayment ability of the borrower or the family)

3. Borrowers Not Eligible for Resolution:

The following categories of borrowers / credit facilities are not eligible for a resolution plan under this framework:

- a. MSME borrowers whose aggregate exposure to lending institutions collectively, is Rs.25 crore or more as on March 31, 2021.
- b. 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 the Company read with the response to Sl. No. 2 of FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020)
- c. Exposures to financial service providers as per sub-section (17) of Section 3 of the Insolvency and Bankruptcy Act, 2016. Financial service provider means a person engaged in the business of providing financial services in terms of authorisation issued or registration granted by a financial sector regulator
- d. Credit facilities/ advances provided by the Company to their own personnel/staff.

4. Approaches propose to be adopted by the Company for implementation of the Framework

4.1 Categorization of Loans:

- All JLG/ Individual loans granted to borrowers engaged in non-farm activities are eligible under the resolution framework-2.0
- Farm credit is excluded from resolution under the Covid-19 framework. However, loans provided for allied activities viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture, etc. may be resolved under the framework. Additionally, loans given to farmer households would be eligible for resolution under the Resolution Framework if they do not meet any other conditions for exclusion listed in the Resolution Framework.
- All Consumer Credit loans shall be restructured in accordance with guidelines stated for Resolution Framework for Personal Loan for Covid 19- related stress.

4.2 Product Categorization

Group and Individual Loans

- Business loans
- Additional loans

- All Group and Individual loans disbursed for consumption purposes shall qualify under Personal Loan of the Resolution Framework.

Agriculture and Allied Group and Individual Loans:

- All Group and Individual loans disbursed for Agriculture purposes shall not be eligible for restructuring under this program as per applicable regulatory guidelines.
- All Group and Individual loans disbursed for allied activities shall be eligible for restructuring under Other Exposure Framework.

4.3 Eligibility:

For being eligible for a resolution plan under this policy, the borrowers shall be standard as on March 31, 2021 and who are impacted by COVID-19 pandemic, and satisfy the conditions specified above and shall not be in the excluded category.

a. Portfolio Level:

Across severely impacted cities, towns and states, where the general economy remains affected on account of frequent lockdowns, non-availability of transport facilities, natural calamities or man-made disasters, and closure of specific industries and factories.

b. Customer and Family Level:

Individual customers whose cash flows are impacted on account of business downturn, job loss, pay cut, change in livelihood activity, asset loss, severely ill / Covid infected (Self and Family) and loss of earning member. (Any Direct or indirect impact on business)

- c. Borrowers who have been identified as intentional defaulters will not be considered for restructuring.

4.4 Assessment:

A customer level detailed assessment shall be undertaken to understand the revised cash flow position of the borrower.

4.5 Components of One-time Restructuring:

Depending on the severity of the situation, the Company will look at a combination of providing repayment holiday and/or revising EMIs and tenors.

- a. **Repayment Holiday/Moratorium:** Borrowers shall be eligible for a maximum of 24 months repayment holiday. Repayment holiday for such cases will be given to customers, i.e. their EMIs will be skipped by the number of months for which repayment holiday will be availed. The interest accrued during the holiday period would be apportioned from the upcoming EMIs and a revised amortization schedule would be generated for the loan. Hence, based on the Repayment Holiday interest and the EMI, the loan tenure would get extended (with or without changing the EMI).
- b. **Elongation of Tenor:** Loans can be elongated up to 2 years from the original maturity date of existing loans. This will include repayment holiday given, if any.
- c. The repayment holiday if granted shall come into force immediately upon implementation of the resolution plan.

- d. If there are multiple loans availed by a borrower, all loan accounts shall be reviewed for restructuring based on assessment.

In all the above cases, the customer has to agree to a standard monthly instalment which will be repaid as per the agreement executed between the borrower and the Company.

- 4.6 Invocation date and Time Limit:** 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 resolution under this framework may be invoked up to 30th September 2021 and must be implemented within a maximum of 90 days from the date of invocation.

It is proposed that all the borrowers who were standard as on 31st March, 2021 will be considered for restructuring and any asset classification/ DPD standstill will be based on the clarification if any issued by RBI in this regard.

- 4.7 Implementation Date:** Resolution/Restructuring plan has to be implemented within specified timeline as specified above. The resolution plan shall be deemed to be implemented only if all of the following conditions are met:

- All related documentation, including execution of necessary agreements between the Company and borrower either digitally or physically executed are completed in consonance with the resolution plan being implemented.
- The changes in the terms and conditions of the loans get duly reflected in the Company's books; and,
- The borrower is not in default with the Company as per the revised terms.

4.8 Asset Classification and Provisioning

- a. If a resolution plan is implemented in adherence to the provisions of this policy, 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.
- b. Customers who are unable to repay as per the revised restructured schedule shall be downgraded and classified as per applicable IRAC and provisioning norms.
- c. 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 or other relevant instructions as applicable to specific category of lending institutions ("extant IRAC norms").

Provisioning Norms:

- The lending institutions shall keep provisions from the date of implementation, which are higher of the provisions held as per the ECL calculation under IND-AS for which the stage of the loans account would be calculated post restructuring / rescheduling the account or the extant of IRAC norms immediately before the implementation, or 10 percent of the renegotiated debt exposure of the lending institution post implementation (residual debt).
- Half of the excess 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

excess provision 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.

4.9 Income Recognition

- In case of repayment holiday, normal interest would be charged . EMI's will be skipped for the months that a customer has been provided a holiday.
- In case of EMI reduction and tenor elongation approach, Interest to be calculated from the last paid instalment date till implementation date on the standstill OSP as of last paid instalment date. The same amount will be capitalized along with the OSP.
- No interest on capitalized interest shall be levied.

4.10 Reporting to CICs

As per regulatory guidelines, loans restructured under this resolution program shall be reported to the credit bureaus as “Restructured due to COVID-19”

4.11 Customer Rehabilitation

Borrower shall be eligible for additional finance during and after restructuring of existing loans based on their need and repayment capacity.

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.

5. Workflow and Delegation of Power

Activity	Responsibility	Remarks
Customer request for availing Restructuring under the scheme	RO/Branch Team Field	Consider the COVID scenario, the request from customer is proposed to be obtained through the following three modes: 1. Customer Request letter (Annexure I) 2. Customer Request through Customer App 3. Customer Request Confirmation by way of OTP/SMS
Receipt of Restructuring request	System	Post receipt of restructuring request, the system would trigger an SMS for having received the request from the customer for Restructuring.
Restructuring Assessment and Recommendation	RO/Branch Team Field	Post request from customer, the credit assessment of the customer would be done to ensure that the customer is genuinely impacted by COVID and would be able to service the loan as per the restructured terms.

Review of the recommendation & Final Approval	BRM/Operational Hierarchy	Based on the overall assessment, the final approval for Restructuring will be given by BRM/Operational Hierarchy
Confirmation of Restructuring	System Control	Post effecting Restructuring in the System, the system would trigger an SMS intimating the customer on effecting the Restructuring in the System.
Execution of Restructuring	System Control	The execution of the same will be automatically done based on the field inputs.
Loan Card generation	System Control	This would be sequentially done based on the restructuring implemented in the system.
Hand over document to customer & Customer acknowledgement	Branch Team	Post revised loan schedule generation: the Branch team would hand over the new loan card to the customer. On another loan card acceptance of the restructured terms will be obtained from customer and that would be deemed to be the part of agreement with the customer on the acceptance of restructured terms.

The overall high level flow of Restructuring process is provided in Annexure II

6. Disclosures:

The Company shall make appropriate disclosures about the restructured accounts in terms of this Policy in its annual financial statements, along with other prescribed disclosures.

7. Miscellaneous

- **Display on website:** The Board approved policy on restructuring of stressed assets will be hosted on the Company's website for our customers information and benefit.
- **Effective Date:** This Policy shall be effective from the date of issue of RBI circular i.e., May 05, 2021 based on the approval of Board of Directors.
- **Review of policy:** The Policy shall be reviewed as and when required by the applicable rules and regulations.

Annexure I: Restructuring request letter

Customer Request cum Consent Form for Restructuring

To,
Muthoot Microfin Ltd,
5th Floor, Muthoot Towers, MG Road,
Cochin, Kerala - 682035

Date :

Place :

Dear Madam/Sir,

1. I confirm that Muthoot Microfin Ltd has explained to me in detail about the option to Restructure the terms of my loan , as per Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses dated May 5, 2021

2. I understand that the Restructuring and associated repayment holiday will lead to increased interest cost and will change my repayment schedule such as instalment amount and tenure.

3. Based on this information, I would like to **(tick as appropriate)**

- Opt-out for the moratorium and will continue to pay instalment as per schedule given by the company.
- Opt-in for moratorium and will continue to pay instalment as per revised schedule given by the company. If insurance cover is extended based on the moratorium extension, Rs 4/- per Rs 1000/- (per individual) shall additionally become payable towards the premium amount.

I am aware that the moratorium acceptance is solely at the discretion of MML. Moratorium is a temporary postponement of payment of interest/ principal / instalments. However, interest on the loan outstanding will get levied and accrued for the deferred or moratorium period.

All other terms and conditions of the original loan agreement shall remain unchanged and this consent form shall be considered as part of the loan agreement.

Yours faithfully,

Signature

Customer details

Name :

Mobile Number :

Loan number :

Master Centre :

Branch Name :

Client Number :

Annexure II: High level work-flow

