

ONE TIME LOAN RESTUCTURING



The Reserve Bank of India (RBI) had announced the moratorium on all term loans on EMI between 1 Mar 20 and 31 May 20, which was further extended 31 Aug 20. The aim was to provide relief to people, as they would have found it difficult to service their loans due to loss/shortage of income during the nationwide lockdown.

In another major initiative, the RBI has proposed **one-time restructuring** for borrowers struggling with repayments due to liquidity issues.

- Accounts which were standard, and **not in default for more than 30 days as on 1 Mar 20** will be considered.
- The borrower can get the restructured framework **invoked before 31 Dec 20**, and it needs to be **implemented within 90 days for personal loans**, and **within 180 days for corporate loans** from then.
- Under the restructuring plan, banks can choose to reschedule loan repayments, convert any interest accrued or to be accrued into another credit facility, extend the loan tenor, or extend moratorium **up to two years** for the existing loans, depending on the current repayment capacity of the borrower. The moratorium period, if granted, shall come into force immediately upon implementation of the resolution plan.
- Banks can also convert a portion of the loan into debt or equity securities as part of restructuring plan.
- In all cases involving multiple lending institutions, 60% of the lenders by number, and 75% by value must sign Inter-Creditor Agreement (ICA) within 30 days of the invocation.
- Lenders have to hold 10% provision against accounts undergoing restructuring. Those, who haven't signed ICA have to hold 20%.
- The RBI has set up a five-member **expert committee** headed by K V Kamath, former Chairman of ICICI Bank, which will :
 - Make recommendations on the **financial parameters required**
 - Undertake a **process validation of resolution plans** for accounts above **Rs 1,500 crore or more**.
- For cases where the aggregate debt is over **Rs 100 crore**, the lending institutions will have to obtain an **independent credit evaluation for the resolution plan** from a recognized credit rating agency.
- Quarterly disclosures required by Bank on number and amount of accounts where resolution plan has been implemented under this window