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# **Bajaj Housing Finance Limited**

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## **Policy on Resolution Framework 2.0 for COVID-19 Related Stress for Individual, Small Business & MSME Loans**

**May 2021**

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Sign Off Sheet –Restructure Resolution Framework (COVID 19)		
<b>APPROVED BY</b>	<b>Board of Directors</b>	
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## 1 Introduction

Bajaj Housing Finance Limited (hereinafter referred to as “BHFL” or “Company”) is a Public Limited Company incorporated under Companies Act, 1956 and governed by Directives of Reserve Bank of India & National Housing Bank.

RBI vide its circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 on “Resolution Framework for COVID-19-related Stress” (“**Resolution Framework – 1.0**”) had provided a window 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 recent weeks, RBI vide its Circulars No 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 and RBI/202122/32/DOR.STR.REC.12/21.04.048/2021-22 on Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) dated May 05, 2021 allowed restructuring under Resolution framework 2.0. RBI circular requires each lending institution to put in place a Board approved policy detailing the way such evaluation may be done and the objective criteria that may be applied while considering the resolution plan in each case.

## 2 Objective and Scope

Primary objective of the policy is to provide relaxation to borrowers to mitigate the burden of debt servicing obligation brought about by disruption because of COVID-19 pandemic. Through this document, Company intends to establish a resolution framework for:

- ✓ Evaluation of impact during pandemic on repayment capacity of borrower/s;
- ✓ To assess the viability of resolution plan to be provided to borrowers;
- ✓ Offer suitable resolution plan agreed mutually;
- ✓ Implement mutually agreed plan within stipulated timeframe of these guidelines; and
- ✓ Reporting and provisioning methodology.

Borrowers who don’t meet the eligibility criteria as per the framework shall be considered for resolution as per RBI circular on “Prudential Framework for Resolution of Stressed Assets Directions 2019” dated June 7, 2019 (“Prudential Framework”).

## 3 Definitions

- i. **Financial Service Provider:** As per section 3 (17) of The Insolvency and Bankruptcy Code, 2016, Financial Service Provider is a person engaged in the business of financial services in terms of authorisation issued or registration granted by a financial sector regulator.

- ii. **Personal Loan:** Personal loans refer to loans given to individuals and consist of (a) consumer credit, (b) education loan, (c) loans given for creation/ enhancement of immovable assets (e.g., housing, etc.), and (d) loans given for investment in financial assets (shares, debentures, etc.) (Refer: RBI/2017-18/117 DBR.No.BP.BC.99/08.13.100/2017-18 and RBI Circular - XBRL Returns – Harmonization of Banking Statistics- DBR.No.BP.BC.99/08.13.100/2017-dated 18 January 04, 2018).
- iii. **MSME Loan:** Classification of borrower will be done basis investment in Plant & Machinery along with turnover as below (Ref. RBI Circular - Credit flow to Micro, Small and Medium Enterprises Sector under reference FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 dated July 2, 2020:

Classification	Micro	Small	Medium
Manufacturing and services enterprises	Investment in Plant & Machinery or Equipment: $\leq$ ₹1 crore and Turnover: $\leq$ ₹5 crore	Investment in Plant & Machinery or Equipment: $\leq$ ₹10 crore and Turnover: $\leq$ ₹50 crore	Investment in Plant & Machinery or Equipment: $\leq$ ₹50 crore and Turnover: $\leq$ ₹250 crore

- iv. **Restructured Account:** A restructured account is one where lending institutions for economic or legal reasons relating to borrower's financial difficulty, grant concession to borrowers that would not be considered otherwise. Restructure would normally include but not limited to modification of repayment period / repayable amount or instalment / change in interest levied etc. In other words, extension or deferment of EMIs/instalment to individual borrower as against to an entire class, would render the accounts to be classified as "Restructured Accounts". (Ref. RBI Circular - XBRL Returns – Harmonization of Banking Statistics- DBR.No.BP.BC.99/08.13.100/2017-dated 04.01.2018).
- v. **Date of Invocation:** Date on which both the borrower and lending institution have agreed to proceed with a resolution plan under this framework.
- vi. **Implementation Period:** Time period not later than 90 days from the date of invocation.

#### 4 Summary of Circulars

Sr. No	Policy Circular	Date of Circular	Subject of Circular	Institution Covered
1	RBI/2015-16/101/DBR.No.BP.BC.2/21.04.048/2015-16	July 1, 2015	Prudential norms on Income Recognition, Assets classification and provisioning pertaining to advances	All Commercial Bank (excluding RRBs)

Sr. No	Policy Circular	Date of Circular	Subject of Circular	Institution Covered
2	RBI/2018-19/203/DBR.No.BP.BC.45/21.04.048/2018-19	June 7, 2019	Prudential framework for resolution of stressed assets	<ol style="list-style-type: none"> <li>1. Scheduled Commercial bank (excluding RRBs)</li> <li>2. All India term financial institutions (NABARD, NHB, EXIM Bank, &amp; SIDBI)</li> <li>3. Small Finance bank (SFB)</li> <li>4. Systematically important Non-deposit taking NBFC and deposit taking NBFC.</li> </ol>
3	RBI/2019-20/160 DOR.No.BP.BC.34/21.04.048/2019-20	February 11, 2020	Micro, Small and Medium Enterprise (MSME) sector- Restructuring of advances for aggregate exposure <=25 crore	All banks and NBFCs regulated by RBI
4	RBI/2020-21/16/DOR.No.BP.BC/3/21.04.048/2020-21	August 6, 2020	Resolution framework for COVID-19 related stress	<ol style="list-style-type: none"> <li>1. All Commercial banks (Inc. RRB/SFB/LAB)</li> <li>2. All Primary (urban) /state / District co-operative bank</li> <li>3. All India Financial institutions</li> <li>4. All NBFC (incl. Housing Finance Companies – HFC's)</li> </ol>
5	RBI/2020-21/17/DOR.No.BP.BC/4/21.04.048/2020-21	August 6, 2020	Micro, Small and Medium Enterprise (MSME) sector- Restructuring of advances	<ol style="list-style-type: none"> <li>1. All Commercial banks (Inc. RRB/SFB/LAB)</li> <li>2. All Primary (urban) /state / District co-operative bank</li> <li>3. All India Financial institutions</li> <li>4. All NBFC</li> </ol>
6	RBI/2020-2021/10 FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21	July 2, 2020	Credit flow to Micro, Small and Medium Enterprises Sector	<ol style="list-style-type: none"> <li>1. All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)</li> <li>2. All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks</li> <li>3. All-India Financial Institutions</li> <li>4. All Non-Banking Financial Companies</li> </ol>

Sr. No	Policy Circular	Date of Circular	Subject of Circular	Institution Covered
7	RBI/2021-22/31 DOR.STR.RE C.11/21.04.048 /2021-22	May 5, 2021	Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses	1. All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) 2. All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks 3. All All-India Financial Institutions 4. All Non-Banking Financial Companies (including Housing Finance Companies)
8.	RBI/2021-22/32 DOR.STR.RE C.12/21.04.048 /2021-22	May 5, 2021	Resolution Framework 2.0 – Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs)	1. All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) 2. All Primary (Urban) Co-operative Banks/State Co-operative Banks/ District Central Co-operative Banks 3. All All-India Financial Institutions 4. All Non-Banking Financial Companies (including Housing Finance Companies)

## 5 Resolution Framework 2.0 Extract of circulars

Extracts of relevant provisions and norms of circulars issued by RBI which are applicable to BHFL are mentioned below:

### 5.1 Applicability

As per Circular RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22 for Resolution Framework – 2.0 it shall be applicable to below borrowers:

Resolution of Covid-19 related stress of Individuals and Small Businesses:

- Individuals who have availed of personal loans as defined in the clause 3(ii)
- Individuals who have availed of loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than ₹25 crore as on March 31, 2021.
- Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises (MSME) as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than ₹25 crore as on March 31, 2021.

As per Circular RBI/2021-22/32/DOR.STR.REC.12/21.04.048/2021-22 for Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs):

- Micro, small and medium enterprises (MSME) as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than ₹25 crore as on March 31, 2021.

**Exposures/borrowers kept out of resolution framework as below:**

1. Exceptions specified in paragraphs 25-28 of Prudential Framework for Resolution of Stressed Assets (i.e. restructuring in respect of projects under implementation involving deferment of date of commencement of commercial operations (DCCO), revival and rehabilitation of MSMEs, restructuring of loans in the event of a natural calamity and borrower entities in respect of which specific instructions have already been issued or are issued by the Reserve Bank to the banks for initiation of insolvency proceedings under the IBC).
2. Farm Credit Exposure (Excluding farmer/JLG loans for Agri allied activities viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture, loans given to farmer households would be eligible for resolution under the Resolution Framework if they do not meet any other conditions for exclusions listed in the Resolution Framework as per FAQs on Resolution Framework for Covid-19 related stress (Revised on December 12, 2020).
3. Loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi- Purpose Societies (LAMPS) for on-lending to agriculture.
4. Exposures of lending institutions to financial service providers, Central and State Governments; Local Government bodies (e.g. Municipal Corporations); and, body corporates established by an Act of Parliament or State Legislature and exposure etc.
5. Credit facilities provided to own personnel/staff.

## 5.2 Resolution framework for Individuals and Small Businesses

Resolution plan is applicable for following borrowers subject to conditions mentioned below:

- a. Account should be classified as standard with the Company as on March 31, 2021.
- b. The decisions on requests / applications received by BHFL from customers for invoking restructuring under this facility shall be communicated in writing to the applicant by BHFL within 30 days of receipt of such requests / applications.
- c. Resolution plan must be invoked by September 30, 2021 and must be implemented within 90 days from the date of invocation.
- d. In cases of loans of borrowers specified in Clause 5.1 above where resolution plans had been implemented in terms of the Resolution Framework – 1.0, and where 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, BHFL is permitted to use this window to modify such plans only to the extent of increasing the period of moratorium / extension of residual tenor subject to maximum 2 years.



- e. The instructions contained in the circular DOR.No.BP.BC/13/21.04.048/2020-21 dated September 7, 2020 on “Resolution Framework for COVID-19-related Stress – Financial Parameters” shall not be applicable to resolution plans implemented under this window.

The resolution plans may 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. 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.

### 5.3 Resolution of Micro, Small and Medium Enterprises

Resolution plan is applicable for MSME borrowers subject to conditions mentioned below:

- a. The borrower should be classified as a micro, small or medium enterprise as on March 31, 2021 in terms of the Gazette Notification S.O. 2119 (E) dated June 26, 2020.
- b. 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.
- c. The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed ₹25 crore as on March 31, 2021.
- d. The borrower’s account should have been ‘standard asset’ as on March 31, 2021.
- e. The restructuring of the borrower account shall be invoked by September 30, 2021. For this purpose, the restructuring shall be treated as invoked when BHFL and the borrower agree to proceed with the efforts towards finalising a restructuring plan to be implemented in respect of such borrower. The decisions on applications received by BHFL from customers for invoking restructuring under this facility shall be communicated in writing to the applicant by BHFL within 30 days of receipt of such applications.
- f. The decision to invoke the restructuring under this facility shall be taken by BHFL having exposure to a borrower independent of invocation decisions taken by other lending institutions, if any, having exposure to the same borrower.
- g. The restructuring of the borrower account shall be implemented within 90 days from the date of invocation.
- h. 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.

- i. Asset classification of borrowers classified as standard to be retained as such, whereas the accounts which may have slipped into NPA category between April 1, 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.

## 6 Assets classification and Provisioning – Resolution of Covid-19 related stress to Individuals and Small Businesses

- a) If a resolution plan is implemented in adherence to the provisions of this circular, 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) 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 HFC ("extant IRAC norms").
- c) If a resolution plan is implemented under this framework, BHFL shall keep provision from the date of implementation as below:
  - i. Higher of provision as per IRAC norms just before implementation or 10% of the renegotiated debt exposure, this will also include the portion of non-fund based facilities that may have devolved into fund based facilities after the date of implementation.

### **Guideline for reversal of provision in case of Individual and Small businesses:**

- i. Half of the above 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 half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.
- ii. 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.
- d) The provisions required to be maintained under this window, to the extent not already reversed, shall be available for the provisioning requirements when any of the accounts, where a resolution plan had been implemented, is subsequently classified as NPA.

## 7 Disclosure and Credit Reporting

- a) Disclosure to be made in financial statement as per:
  - i. Quarterly statements (at minimum) in prescribed Format X in financial statements for quarter ending September 30, 2021 to December 31, 2021.

- ii. The resolution plans implemented individual and small businesses should be reported as continuous (Half yearly) disclosures required as per Format-B.
  - iii. The number of borrower accounts where modifications were sanctioned and implemented under 5.2.a, such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
  - iv. Annual disclosure mandatory.
- b) All loan accounts restructured under this framework will be reported as “Restructured due to COVID-19” to all CICs.
- c) As per RBI Circular - RBI/2018-19/17/DOR.No.BP.BC/18/21.04.048/2018-19 dated January 1, 2019 on MSME Sector – Restructuring of Advances, BHFL shall make appropriate disclosures in the financial statements, under ‘Notes on Accounts’, relating to the MSME accounts restructured under these instructions as per the following format:

No. of accounts restructured	Amount (₹ in million)

## 8 Assessment/Evaluation Process

### Step 1: Channels for Restructuring request

- ✓ Notwithstanding Company’s Suo moto approaching to borrower’s basis its internal assessment, the Company also accepts requests from customers who approaches the Company on a standalone basis for granting OTR-2 after proving that COVID stress impacted their earning capacity. The decision on the same shall be with the Company and binding on the borrower.
- ✓ Board approved policy for restructuring will be published on the website of BHFL. Customer can approach Company for restructuring through link on the website.

### Step 2: Evaluation

- ✓ Central appraisal team will be constituted basis loan exposures which will assess the COVID-19 impact on the borrower through discussion/documents/bureau and other channels to provide the restructuring facility.
- ✓ Cases where no impact established due to COVID-19 or impact is prior to COVID-19 then case may be declined under this framework and communication of the same to be shared with customer through acceptable channel of communication in line with Fair Practice Code of the Company. These cases may be processed under Prudential Framework of RBI/NHB.
- ✓ The decision on the application shall be communicated in writing to the applicant by BHFL within 30 days of receipt of such applications.

- ✓ Resolution plan along with agreed commercials to be communicated to the customer through service desk / field team for further action.
- ✓ As per the RBI direction company has to take additional provisioning on the loan which gets restructured and may entail charging of processing fee/higher rate of interest on the loan.

## 9 Approving Committee

Basis the exposure limit at Customer level, we are proposing to constitute below committee for approval of restructuring proposals. Multiple committees may be constituted for retail loans basis number of requests.

Loan Exposure	Committee Member
Loan amount <= ₹1 crore	a. Zonal Collection manager / National Collection manager b. Zonal credit manager & above c. Regional credit manager & above d. Senior manager -Risk & above
Loan amount > ₹1 crore	a. National Head Collection or Chief Collection Officer b. National Head – Credit or Chief- Credit & Operation c. National Manager / Head- Risk

Approval from 2 committee members of which at the least one should be Zonal Collection Manager/National Collection Manager & above for offering restructuring facility.

All additional funding/fresh credit facility will be sanctioned and disbursed in terms of the credit approval matrix approved by the Board from time to time, based on the recommendation of the committee

Below table exhibit an illustrative list (not exhaustive) of restructuring programs which can be offered basis assessment of income, obligations and cause of restructuring request.

Sr No	Scenario	Proposition
1	Tenor Extension	Residual Tenor + Tenor extension
2	EMI Holiday + Tenor Extension	EMI Holiday + Tenor extension
3	Principal Deferment + Tenor Extension	Principal deferment (interest to be paid monthly) + Tenor extension
4	EMI Holiday + Principal Deferment +Tenor Extension	EMI Holiday + Interest start after the end of EMI holiday period (Principal continue to be deferred) + Tenor extension
5	Additional Funding	Additional funding basis internal assessment

## 10 Grievance Redressal

BHFL shall address grievances of the customers under the Resolution Framework – 2.0 as per its existing grievance redressal mechanism for customers.

### Annexure 1: Format X

Format for disclosures to be made in the quarters ending September 30, 2021 and December 31, 2021

SI. 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			

### Annexure 2: Format B

Type of borrower	Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of the previous half-year (A)	Of (A), aggregate debt that slipped into NPA during the half-year	Of (A) amount written off during the half-year	Of (A) amount paid by the borrowers during the half-year	Exposure to accounts classified as Standard consequent to implementation of resolution plan – Position as at the end of this half-year
Personal Loan					
Corporate persons (as defined in IBC section 3(7))					
Of which, MSMEs					
Others					
Total					