

Vastu Housing Finance Corporation Limited – Policy on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses

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Document Control

Description	Policy on Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses for Vastu Housing Finance Corporation Limited
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1. Background:

Vastu Housing Finance Corporation Limited (hereinafter referred to as “the Company” or “NBFC-HFC” or “Lender”) is a Private Limited Company incorporated under the provisions of the Companies Act, 1956 and registered with the National Housing Bank (“NHB”).

The RBI on May 05, 2021, vide its circular no. RBI/2021-22/31 DOR.STR.REC. 11/21.04.048/2021-22 (“**Resolution Framework – 2.0**”) has released guidelines for NBFCs on implementation of resolution framework for COVID-19 related stress.

Earlier, the Reserve Bank of India 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 the COVID-19 pandemic has led to incremental financial stress for borrowers nationwide that may impact the recovery process and create new uncertainties. The resultant stress can potentially impact the long- term viability of many Companies, otherwise having a good track record, due to their debt burden becoming disproportionate relative to their cash flow generation abilities.

Considering the above, the RBI provided a second window under the Prudential Framework and enabled the lenders to provide a resolution framework to the eligible borrowers for repayment of their loan by way of restructuring the loan or extending the tenure for repayment of the debt.

2. Objective of the Policy:

The objective of the policy is to provide a framework for implementation of viable resolution plans for eligible borrowers, ensuring that the resolution under this facility is provided only to the borrowers having stress on account of Covid-19. This policy details the eligibility of borrowers in respect of whom Vastu will consider for resolution and the due diligence considerations for implementation of the resolution plan as well as the system for redressing the grievance of borrowers who request for resolution.

3. Definitions:

For the purposes of this policy, the below terms shall have the meaning as provided hereinunder:

- a. **Board:** The Board shall mean the Board of Directors or any authorized committee(s) of the board of the Company.
- b. **COVID-19:** Coronavirus Disease or COVID-19 is an infectious disease, which was declared as a global pandemic by World Health Organization on 11 March 2020.
- c. **Eligible Borrower/s:** For the purpose of resolution plan under this Policy, eligible borrower shall mean:
 - o *the borrowers whose accounts were not in default for more than 90 (ninety) days with the Company as on March 31, 2021.*
 - o *the borrowers having stress on account of COVID-19; and in respect of whom the Company is willing to consider the resolution under this Policy.*
- d. **Standard Assets:** Standard asset shall mean the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem or carry more

than normal risk attached to the business.

- e. **Date of Invocation:** The date of invocation means the date on which both the borrower and lender have agreed to proceed with a resolution plan for the Eligible Borrower in terms of this Policy. However, in no case the Date of Invocation be later than September 30, 2021.
- f. **Last Date of Application:** The date by which the borrower has to approach the company to avail the restructuring in written application not later than September 30, 2021.

4. Resolution Plans

The resolution plans under the policy could include any or a combination of the below:

- a. Rescheduling of payments.
- b. Conversion of any interest accrued or to be accrued into an existing or another credit facility.
- c. Granting of moratorium based on assessment of income streams of the borrower (subject to a maximum of two years / 24 months from the date of implementation of the resolution plan).

For borrowers who have already availed restructuring under Resolution Framework – 1.0, the caps on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years / 24 months.

These could lead to a commensurate increase in the tenor **and / or equated monthly installments (EMI)** of the loan.

5. Eligibility for resolution under this Policy:

The Company shall take into consideration only the Eligible Borrowers for the purpose of considering and implementing the resolution plans. However, it is necessary that the Eligible Borrowers account is classified as Standard Asset as on March 31, 2021.

Keeping in view the RBI guidelines issued from time to time, the Board will consider and provide suitable resolution/restructuring plans for the Eligible Borrowers, provided the same shall not exceed a period of 2 years from the date of original maturity of the loans availed.

▪ Timelines for resolution

The resolution plan for the Eligible Borrower account under this Policy shall be invoked latest by September 30, 2021 and must be implemented within 90 (Ninety) days from the Date of Invocation.

▪ Implementation of resolution (also known as “Date of Implementation”)

A restructuring of loan would be treated as implemented upon fulfilment of all of the following conditions:

- a. The decision on the restructuring application has been communicated to the customer in writing within 30 days of the application receipt.
- b. All related documentation, including execution of necessary agreement(s), if any, between Company and Eligible Borrower are completed.
- c. The new loan amount and/ changes in the terms and conditions of the existing loan account get duly reflected in the books of accounts of the Company.

6. Due Diligence Process

The Company on receipt of a written request application / email any other mode of communication from the Eligible Borrower, shall evaluate the proposal for restructuring of the loan account(s) including evaluation of necessary documents.

On due evaluation of the request submitted by the Eligible Borrower, the concerned team of the Company shall execute with the Eligible Borrower necessary amendment agreement or other necessary documents in order to record the revised terms and implement viable resolution plan(s), as provided in clause 4. herein above.

7. Asset Classification and Provisions

Asset Classification

- If a resolution plan is implemented in adherence to the provisions of this facility, 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.
- Additional finance to borrowers in respect of whom the resolution plan has been invoked, if sanctioned even before implementation of the plan in order to meet the interim liquidity requirements of the borrower, may be classified as 'standard asset' till implementation of the plan regardless of the actual performance of the borrower with respect to such facilities 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 the additional finance or the rest of the credit facilities, whichever is worse.
- Further, upgradation shall be subject to implementation of a fresh restructuring under the Prudential Framework of The Reserve Bank of India, or the relevant instructions as applicable.
- Asset classification for borrowers who have availed restructuring under Resolution Framework 1.0, shall be governed by the norms laid out in the Resolution Framework - 1.0 circular.

Provisioning Norms

In respect of loans where a resolution plan is implemented under this facility, the Company shall keep provisions from the date of implementation, which is higher of the provisions held as per the extant IRAC norms as prescribed by The Reserve Bank of India immediately before implementation, or 10 percent of the renegotiated debt exposure of the customer post implementation.

The additional provisions maintained, if any, by the Company in terms of the circular DOR.No.BP.BC.63/21.04.048/2019-20 dated April 17, 2020 in respect of such borrowers, to the extent not already reversed, may be utilized for meeting the provision requirements in all cases under this facility.

Norms for Reversal of Provision

In case of loans resolved under this facility, 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.

Provisioning and reversal for borrowers who have availed restructuring under Resolution Framework 1.0, shall be governed by the norms laid out in the Resolution Framework - 1.0 circular.

8. Prudential Norms:

- **Disclosure in the Financial Statement:** The Company shall make appropriate disclosures about the restructured accounts in terms of this Policy in its annual financial statements under the “Notes to Accounts”.
- **Credit Reporting by the Company:** The restructuring of loan granted to the Eligible Borrowers under this Policy will be treated as new restructured loan account and the credit history of the Eligible Borrowers shall consequently be governed by the respective policies of the credit information companies as applicable to accounts that are restructured.

9. Post Implementation Performance and Credit Reporting

For loans, after implementation of the resolution plan in terms of this facility, the subsequent asset classification will be governed by the criteria laid out by the Reserve Bank of India, as applicable to specific category, and as amended from time to time.

10. Disclosure and Reporting

- Quarterly disclosures (at minimum) for accounts restructured to be done starting quarter ending September 30, 2021 and December 31, 2021 in format as per Annexure – X. The number of borrower accounts restructured as per Resolution Framework – 1.0, where modifications were sanctioned and implemented, the aggregate exposure of the lending institution to such borrowers may also be disclosed on a quarterly basis, starting from the quarter ending June 30, 2021.
- Quarterly disclosures (at minimum) for accounts restructured under the previous framework (Resolution Framework – 1.0) to continue from March 31, 2021 through September 30, 2021 as per Annexure A
- Half yearly disclosures commencing from September-21 in format as per Annexure – B till earlier of:
 - a. All exposures under resolution plan fully extinguished.
 - b. Completely slips into NPA.
- Mandatory annual disclosures in the annual financial statements.
- Where the resolution plan has been implemented under this framework, credit reporting will be “restructured due to COVID-19” status of the account if the resolution plan involves renegotiations that would be classified as restructuring under the Prudential Framework.

11. Others:

- a. **Display on Website:** The Board approved policy and/or an extract-based FAQ on restructuring of stressed assets will be hosted on the Company’s website for our customers’ information and benefit.
- b. **Effective date:** This Policy shall be effective from the date of approval of this Policy by the Board.
- c. **Normal Reschedulement:** In case a borrower is need of restructuring but does not qualify the eligibility criteria as per Section 3.c. above, the same shall be rescheduled as per the guidelines laid out by National Housing Bank for Housing Finance Companies (HFCs) as stated in the Master Circular – *NHB(ND)/DRS/REG/MC-01/2019*. Asset classification and provisioning for such accounts shall be

in accordance with the norms laid out in the said circular.

- d. **Review of Policy:** The Policy shall be reviewed as and when required by the applicable rules and regulations.
- e. While Policy outlines the broad internal guidance that the Company will follow to take decisions regarding this restructuring of stressed assets/loan, the Company retains the discretion to take decisions regarding this Policy depending on case specific issues or nuances. The Company reserves the right to amend the Policy within the framework of RBI guidelines.

Annexure- X

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

Sl. 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- A

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

Type of borrower	(A) Number of accounts where resolution plan has been implemented under this window	(B) exposure to accounts mentioned at (A) before implementation of the plan	(C) Of (B), aggregate amount of debt that was converted into other securities	(D) Additional funding sanctioned, if any, including between invocation of the plan and implementation	(E) Increase in provisions on account of the implementation of the resolution plan
Personal Loans					

Annexure- B

Format for disclosures to be made half yearly starting September 30, 2021

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 Loans					