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FREQUENTLY ASKED QUESTIONS : RBI Allowed Banks to Declare Moratorium on Term Loans

Last week, the **Reserve Bank of India has allowed Banks to declare a three-month moratorium on all term loans outstanding** as on March 1, 2020, as well as on working capital facilities.

The **Indian Banks Association has answered a list of Frequently Asked Questions** about the technicalities of the moratorium.

QUESTION 1: When/what was the RBI announcement?

ANSWER: Last week, the Reserve Bank of India announced a three-month moratorium on all term loans outstanding as on March 1, 2020, as well as on working capital facilities.

QUESTION 2: Why has RBI announced the relief package?

ANSWER: Reserve Bank of India has announced certain regulatory measures to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses. It was felt that there may be a temporary disruption in the cash flows, and in some cases loss of income, for the businesses/ individuals and the present measures work to bring relief to those businesses / individuals.

QUESTION 3: Which are the facilities eligible for availing the benefits under the RBI COVID-19 regulatory package and whether the facility is extended across the board to all borrowers?

ANSWER: All term loans (including agricultural term loans, retail, crop loans and loans under Pool Purchases) and cash credit/overdraft are eligible to avail the benefits under the package. This is available to all such accounts, which are standard assets as on 1st March 2020. Further, to avoid unnecessary paperwork the facility has been extended across the board to all the borrowers by extending repayment of term loan installments (includes interest) by 90 days. The original repayment period for term loans will get extended by 90 days e.g. a loan repayable in 60 installments maturing on 1st March 2025 will mature on 1st June 2025.

QUESTION 4: Is rescheduling of payments applicable for all kinds of term loans?

ANSWER: It is applicable for all term loans in all the segments, irrespective of the segment and the tenor of the term loans.

QUESTION 5: Is rescheduling of term loans only for principal amount or it also includes interest?

ANSWER: Rescheduling of principal can be done for a period of three months falling due between March 1, 2020 and May 31, 2020. For example, where the last installment of a term loan falls due for payment of on say 1st March 2020, it will become payable on 1st June 2020.

For EMI based term loans, it will be three EMIs falling due between 1st March 2020 and May 31st, 2020 and the tenor will be extended by three months and have to be repaid during the extended period, as per the example under (2) above.

For other term loans, it will be all the installments and Interest falling due during the same period, irrespective of the tenor of payment i.e. monthly, quarterly, half yearly, annually, bullet payment etc. For term loans, where the repayment has not commenced, the interest portion for three months alone needs to be reckoned.

QUESTION 6: What happens if the extended tenor of term loan goes beyond the maximum period stipulated for a product or as stipulated in the loan policy?

ANSWER: This can be extended for all such term loans without the need for seeking deviations or approvals.

QUESTION 7: What will be the treatment of interest on the working capital facilities?

ANSWER: The recovery of Interest applied to cash credit/overdraft on 31st March, 30th April and 31st May 2020 is being 'deferred'. However, the entire interest must be recovered along with the interest being applied on 30th June 2020 and in cases, where monthly interest is not being applied, along with the next interest date.

QUESTION 8: What will be the impact of this relief by RBI on borrowers as far as reporting of default is concerned?

ANSWER: Any delay in payment leads to default and gets reported to Credit Bureaus. For business loans of Rs. 5 Crores and above, the banks report the overdue position to RBI also through CRILC. As a result of this relief package, the overdue payments post 1st March 2020 will not be reported to Credit Bureaus/ CRILC for three months. No penal interest or charges will be payable to the banks. Similarly, SEBI has allowed that Credit Rating Agencies (CRAs) may not consider the delay as default by listed companies if the same is owing to lockdown conditions arising due to COVID-19.

QUESTION 9: That means businesses/ Individuals should necessarily take the benefit?

ANSWER: You may take the benefits under this package if there is a disruption in your cash flows or there is loss of income. However, you must take into account that the interest on the loans, though not mandatorily payable immediately and gets postponed by 3 months, continues to accrue on your account and results in higher cost.

To give you a perspective, suppose your loan outstanding is Rs 100,000 and you are charged 12 percent rate of interest on your loans, then every month you are liable to pay Rs. 1,000 as interest. In case you opt not to service the interest every month, you are liable to pay interest at 12 percent p.a. and accordingly you will pay Rs. 3,030.10 at the end of 3rd month.

Similarly, in case the interest rate is 10 percent, you are required to pay Rs. 833 p.m. or Rs. 2,521 after three months.

QUESTION 10: Should I get upset if any bank staff or its collection agent approach me for repayment?

ANSWER: You should not get upset and tell bank staff/ collection agent that you want to avail the benefit being extended under regulatory package.

QUESTION 11: What about my credit card dues?

ANSWER: The relief is available for credit card payments also.

In case of credit card dues, there is a requirement to pay minimum amount and if it is not paid the same gets reported to Credit Bureaus. In view of the RBI circular, the overdues in the credit card account do not get reported to the credit bureaus for a period of three months.

However, interest will be charged by the credit card issuer on unpaid amount. You should check from your card provider to arrive at interest payable. Although no penal interest will be charged during this period, but you must remember that the interest rate on credit card dues are normally much higher compared to normal bank credit and you should take a decision accordingly.

QUESTION 12: What about interchangeability being permitted from non-fund based to fund based or FB to NFB for businesses?

ANSWER: The interest applied on the fund based portion of interchangeability availed during the said period of 1st March to 31st May 2020 will be eligible for moratorium. In respect of new sanctions accorded from 1st March and availed during the period, the interest applied on the Fund based portion would be eligible.

QUESTION 13: In what other ways, businesses have been given relief?

ANSWER: The businesses may request the bank to re-assess their working capital requirements on account of disruption of their cash flows or elongation of working capital cycle. They may also request for reduction in margin on NFB facilities (LCs/ BGs etc) or also relief in Security. Decision will be taken by the bank branches on case-to-case basis based on the genuineness of the request.

QUESTION 14: Are NBFCs/MFIs/HFCs eligible under the "easing of working capital financing"?

ANSWER: At present, they are not being considered under the scheme. However, RBI has made provision for sufficient liquidity support to these financial intermediaries under recently introduced Targeted Longer-term Refinancing Operations i.e. TLTRO. Liquidity availed under the scheme by Banks has to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020.

Banks shall be required to acquire up to fifty per cent of their incremental holdings of eligible instruments from primary market issuances and the remaining fifty per cent from the secondary market, including from mutual funds and non-banking finance companies. Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility will also not be reckoned under the large exposure framework. Banks will be able to support NBFCs/ MFIs/ HFCs etc. under this window and we do not foresee liquidity squeeze for these Financial Intermediaries.

QUESTION 14: Will all these measures of RBI be treated as "restructuring"? What about the provisions applicable?

ANSWER: The measures stipulated by RBI under the March 27, 2020 circular on COVID-19 Regulatory Package will not be treated as "restructuring" and hence will not result in asset classification downgrade. Accordingly, the enhanced provisions for Restructured Accounts will not apply.

QUESTION 15: What about installments/EMIs being recovered through SI/ECS/NACH? What will be the procedure for refund of the installment/EMIs, if demanded by the borrower?

ANSWER: Please get in touch with your bank for the revised mandate

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