Bank Branch Audit

Procedures for Restructuring of loans owing to Covid & Subvention

Bangalore

Restructure

26th Mar 4.00 pm to 7.00 pm

By CA Venugopal Gella, Bangalore

Agenda

- Concepts
- Master circular
- Notifications Restructuring of loans – MSME
- LFAR
- Subvention

Concepts

Restructured Accounts

- A restructured account is one where the bank,
  - for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the bank would not otherwise consider.

Restructured Accounts

- Examples
  - Reduction in rate of interest by RBI on all class of loans – **Not to be treated as Restructured Account** (Policy matters)
  - Extension or deferment of EMI's to individual borrower as against entire class – **to be classified as Restructured Account**

Restructured Accounts

- Examples
  - Roll over of short term loans, proper presanction assessment has been made, and the roll over is allowed based on the actual requirement of the borrower and no concession has been provided – **Not to be treated as Restructure Account**

  - If such accounts are rolled over more than 2 times than this needs to be **treated as Restructured accounts**

    (Reference Key Concepts – Annexure 5 of Master circular DCBR.BPD. (PCB) MC No.12/09.14.000/2015-16 dated 1st July 2015)

Restructuring

- A loan for which the parties have agreed to alter the terms, usually to make them more favorable to the borrower
  - Example : lower rate of interest or monthly payment
- Restructured loans are most common if the borrower states that he/she can no longer afford payments under the old terms
  - Example : a borrower may have to accept a new job with less income, forcing a tighter budget

Restructuring

Repeatedly Restructured Accounts

- When a bank restructures an account a second or more times, the account will be considered as a 'repeatedly restructured account'.

- However if the second restructuring takes place after the period upto which the concessions were extended under the terms of first restructuring that account shall not be treated as 'repeatedly restructured account'.

(Reference Key Concepts – Annexure 5 of Master circular DCBR.BPD. (PCB) MC No.12/09.14.000/2015-16 dated 1st July 2015)

Specified Period

- Means a period of one year from the commencement of first payment of interest or principal, whichever is later, On the credit facility with longest period of moratorium under the terms of restructuring package.

Satisfactory performance

- In case or Term loans No payment (Interest and/or principal) shall remain overdue for a period of more than 30 days.

- In case of CC/OD outstanding in the account shall not be more than sanctioned limit or drawing power, whichever is lower, for a period of more than 30 days

- In the case of agricultural accounts, at the end of the specified period the account should be regular

MSME

- Effective 1/7/2020 onwards
- Composite criteria : Investment in P&M and Annual Turnover

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment <= Rs 1 crore Annual Turnover <= Rs 5 crore	Investment <= Rs 10 crore Annual Turnover <= Rs 50 crore	Investment <= Rs 50 crore Annual Turnover <= Rs 250 crore

- RBI has clarified in their FAQ
  - For the purpose of eligibility for resolution under the Resolution Framework, the definition of MSME that would be applicable is the one that existed as on March 1, 2020

Master Circular

DCBR.BPD. (PCB) MC No.12/09.14.000/2015-16	1st July 2015

Prudential Guidelines on Restructuring of Advances

Eligibility Criteria

- Consent/Application from borrower for change in original loan agreement.(bank cannot take up for restructuring on its own)
- Banks may restructure the accounts classified under standard, sub-standard and doubtful
- No retrospective reschedule/restructure

Eligibility Criteria – contd.

- While restructuring proposal is under consideration, the usual asset classification norms would continue to apply
- Asset classification status as on the date of approval would be relevant to decide the asset classification status of account after restructuring
- Bank should check on the financial viability and there is reasonable certainty of repayment from borrower as per terms of restructuring package

Eligibility Criteria – contd.

- Any restructuring done without looking into cash flows and assessing the viability of the projects financed by bans would be treated as an attempt at ever greening a weak credit facility.
- Borrowers indulge in frauds and malfeasance are not eligible for restructuring
- BIFR cases are not eligible for restructuring

Stage of Restructuring of advances

1. Before commencement of commercial production / operation
2. After commencement of commercial production / operation but before the asset has been classified as 'sub-standard’;
3. after commencement of commercial production / operation and the asset has been classified as 'sub-standard' or 'doubtful'.

Asset classification norms

- Account classified as **standard** should **be immediately reclassified** as **substandard** upon restructuring
- NPA would continue to have the same asset classification as prior to restructuring and **slip into further lower asset classification categories**.
- Restructured accounts which have been classified as NPA upon restructuring **would be eligible** for **upgradation** after observation of "**satisfactory performance**" under "**specified period**"

Asset classification norms – contd..

- if satisfactory performance during specified period is **not evidenced**, the asset classification would be **governed as per the applicable prudential norms** with reference to **pre-restructuring payment schedule**

Asset classification norms – contd..

Additional Finance/Facility

- Any additional facility will be treated as "Standard Asset" during the specified period under the approved restructuring package.

- However in the case of accounts where the pre-restructuring facilities were classified sub-standard or doubtful interest income on additional finance should be recognised on cash basis.

- If the restructured asset does not qualify for upgradtion at the end of the specified period additional facility shall be placed in the same asset classification as restructured debt

Asset classification norms – contd..

Restructured asset

At time of Restructuring	Subsequent Restructuring
Standard Asset	Sub – Standard Asset
Substandard or Doubtful	Reckoned from the date it became NPA on the first occasion

- Assets restructured on second or more occasions may be allowed to be upgraded to standard category after the specified period in terms of the current restructuring package, subject to satisfactory performance

Income Recognition

Subject to Additional Facility and FITL income will recognised as follows

Advance	Asset classification	Income recognition
Restructured asset	Standard asset	Accrual
Restructured asset	NPA	cash

Income Recognition contd..

- Income Recognition for FITL

Asset Classification	Income Recognition
Standard	Accrual
NPA	Cash

- Unrealized income represented by FITL should have corresponding credit in an account name “Sundry Liabilities (Interest Captialisation)”
- Only on receipt of unrealized income the interest will be credited to PL and reversing the “Sundry Liabilities (Interest Capitalisation)”

Provisioning Norms

- Normal Provision
- Provision for Diminution in Fair Value of restructured advances

Provisioning Norms contd..

- **Restructured Assets classified as Standard**
  - Will attract higher provisions (prescribed from time to time) in first two years from the date of restructuring
  - In cases of moratorium on payment of interest /principal after restructuring, such advances will attract prescribed higher provision for the period covering moratorium and two years thereafter

Provisioning Norms contd..

- **Restructured Assets classified as Non Performing**
  - Upgraded to standard category will attract a higher provisions (as prescribed from time to time) in the first year from the date of upgradation

Disclosures

Banks should disclose in their annual balance sheet under Notes on accounts information relating to number and amount of advances restructured.

Notifications

Notifications – Restructuring of MSME Loans

Notification no	Date	Standard Asset on	Date of implementation	
DBR.No.BP.BC.100/21.04.048/2017-18	7th February 2018			GST – Transition Phase
DBR.No.BP.BC.108/21.04.048/2017-18	6th June 2018	31st August 2017		GST – Transition Phase
RBI/2018-19/100 DBR.No.BP.BC.18/21.04.048/2018-19	1st January 2019	1st January 2029	31st March 2020	Restructuring of Advances
RBI/2019-20/160 DOR.No.BP.BC.34/21.04.048/2019-20	11th February 2020	1st January 2020	31st December 2020	Restructuring of Advances
RBI/2020-21/17 DOR.No.BP.BC/4/21.04.048/2020-21	6th August 2020	1st March 2020	31st March 2021	Restructuring of Advances

Restructured as at 31st March 2021 - Conditions

- Restructuring should be **completed** on or before **31st March 2021**
- Conditions
  - **Aggregate Exposure** does **not exceed Rs 25 crore** (Fund + Non Fund), (Banks and NBFC) as on 1st March 2020
  - Borrower account was a **standard asset as on 1/3/2020**
  - Entity is **GST registered/Exempted** on the date of implementation of the restructuring.
  - if Asset is downgraded between 2/3/2020 to date of implementation, it can be reclassified as Standard Asset
  - Additional Provisioning of 5% over and above provisions held
- All other instructions specified in the circular dated February 11, 2020 shall remain applicable

Restructured as at 31st December 2020 - Conditions

- Restructuring should be completed on or before 31st December 2020
- Conditions
  - **Aggregate Exposure** does **not exceed Rs 25 crore** (Fund + Non Fund), (Banks and NBFC) as on 1st January 2020
  - Borrower account was a **standard asset as on 1/1/2020**
  - Entity is **GST registered/Exempted** on the date of implementation of the restructuring.
  - if Asset is downgraded between 2/1/2020 to date of implementation, it can be reclassified as Standard Asset
  - if accounts have **already been restructured** in terms of circular dated 1/1/2019 shall **not be eligible** for restructuring under this circular
- All other instructions specified in the circular dated January 1, 2019 shall be applicable

Restructured as at 31st March 2020 - Conditions

- Restructuring should be completed on or before 31st December 2020
- Conditions
  1. **Aggregate Exposure** does **not exceed Rs 25 crore** (Fund + Non Fund), (Banks and NBFC) as on 1st January 2019
  2. Borrower account is **in default** but is a **standard asset as on 1/1/2019** and continued to be classified as standard till date of implementation
  3. Entity is **GST registered/Exempted** on the date of implementation of the restructuring.

Restructured as at 31st March 2020 - continued

4. Restructuring would be treated as implemented
   - Conditions

   a. all related
      - documentation,
      - including execution of necessary agreements between lenders and borrower
      - or creation of security charge
      - or perfection of securities are completed by all lenders; and

   b. The new capital structure and/or changes in the terms and conditions of existing loans get duly reflected in the books of all lenders and borrowers

Restructured as at 31st March 2020 - continued

5. **Additional 5% provision** shall be made in respect of restructured accounts.
   - Banks have the **option of reversing** such provisions at the **end** of **specified period** subject to the account demonstrating **satisfactory performance** during the specified period

Restructured as at 31st March 2020 - continued

Others

1. Post Restructuring – NPA classification of these accounts shall be as per IRAC norms

2. Appropriate disclosure in banks and NBFC financials under Notes to Accounts relating to MSME restructured accounts

3. Accounts classified as NPA can be restructured, however the extant asset classification norms governing restructuring of NPAs will continue to apply

4. Barring one time exception, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per IRAC.

Important instructions

1. Obtain the Board approved policy for all the RBI circulars or notifications
2. Bank should have the board approved policy within a month from the date of the circular

LFAR

LFAR

5 (f) Asset Classification, Provisioning of Advances and Resolution of Stressed Assets

While conducting the SBA we have to take care of the following points

Sl No	Audit Area
(ii)(a)	Whether the branch has reported accounts restructured or rephased during the year to Controlling Authority of the bank?
(ii)(b)	Whether the RBI Guidelines for restructuring on all such cases have been followed.
	Whether the branch complies with the regulatory stance for resolution of stressed assets, including the compliance with board approved policies in this regard, tracking/reporting of defaults for resolution purposes among others?
(iii) (a)	Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India
(iii) (b)	Where the auditor disagrees with upgradation of accounts? If yes, give reasons thereof.

Subvention

Notifications – Interest Subvention

Notification no	Date	Applicable to	Sector
FIDD.CO.FSD.BC.No. 15/05.02.001/2018-19	7th March 2019	Short term Corp Loans	Agriculture
FIDD.CO.FSD.BC.No. 1785/05.02.001/2019-20	26th February 2020	Short term corp loans – Prompt repayment through KCC	Agriculture
FIDD.CO.FSD.BC.No. 23/05.02.001/2019-20	31st March 2020	Short term corp loans – Prompt repayment through KCC	Agriculture
FIDD.CO.FSD.BC.No. 24/05.02.001/2019-20	21st April 2020	Short term corp loans – Prompt repayment through KCC	Agriculture
PADHO PARDESH	29th September 2017	LOANS FOR OVERSEAS STUDIES FOR THE STUDENTS BELONGING TO THE MINORITY COMMUNITIES	Education

Notifications – Interest Subvention

Notification no	Date	Applicable to	Sector
Dr. Ambedkar Central Sector Scheme of Interest Subsidy	1st October 2017	Educational Loans for Overseas Studies for Other Backward Classes (OBCs) and Economically Backward Classes (EBCs)	Education
Pradhan Mantri Awas Yojana (PMAY)-CLSS			Housing

Short term crop loans – Interest subvention (IS) and Prompt Repayment incentive (PRI)

FIDD.CO.FSD.BC.No.24/05.02.001/2019-20 dated 21st April 2020

- Owing to complete lockdown RBI circular dated 27th March 2020 regarding Covid 19 regulatory package, moratorium has been granted for 3 months on payment of instalments falling due between 1st March 2020 and 31st May 2020 in respect of all term loans including short term crop loans

- Do not have to pay Penal interest and also continue to get the benefits of 2% IS and 3% PRI for the extended period of repayment upto 31st May 2020 or date of repayment, whichever is earlier, for short terms loans upto Rs 3 Lacs per farmer.

Short term crop loans – Interest subvention (IS) and Prompt Repayment incentive (PRI)

FIDD.CO.FSD.BC.No.23/05.02.001/2019-20 dated 31st March 2020

- Advising banks that all short term crop loans eligible for IS and PRI benefit are extended only through KCC wef from 1st April 2020

- Short term crop loans which are not extended through KCC shall be converted to KCC loans by 31st March 2020

- Due to complete lockdown the conversion of short term corp loans and agriculture gold loans into KCC by 30th June 2020

Short term crop loans – Interest subvention (IS) and Prompt Repayment incentive (PRI)

FIDD.CO.FSD.BC.No.1785/05.02.001/2019-20 dated 26th February 2020

- Advising banks that all short term crop loans eligible for IS and PRI benefit are extended only through KCC wef from 1st April 2020

- Short term crop loans which are not extended through KCC shall be converted to KCC loans by 31st March 2020

- reimbursement of interest subvention for Short Term Crop Loans through non-KCC accounts shall not be considered beyond March 31, 2020

Padho Pardesh - INTEREST SUBSIDY ON EDUCATIONAL

Objective

- Interest subsidy to meritorious students belonging to economically weaker sections of notified minority communities.

Scope

- This a Central Sector Scheme, on the interest payable for the period of moratorium
- Approved courses of studies abroad at Masters and M phil/Ph D levels

Padho Pardesh - INTEREST SUBSIDY ON EDUCATIONAL

Eligibility

- Secured admission for approved courses at Masters
- Should have availed loan from scheduled bank under educational loan scheme
- Students should apply for the benefits under the scheme during 1st year itself of the course.
- Fresh applications received during the 2nd year or subsequent years will not be accepted

Padho Pardesh - INTEREST SUBSIDY ON EDUCATIONAL

Income Ceiling

- Total income from all sources of the employed candidate or his/her parents in case of unemployed candidate should not exceed RS 6 Lac per annum
- Income certificate

Padho Pardesh - INTEREST SUBSIDY ON EDUCATIONAL

Subsidy

- Interest payable for the period of moratorium (course period + 1year or 6 months after getting job, whichever is earlier)

- Post moratorium period candidate will bear principal and interest.

Dr. Ambedkar Central Sector Scheme of Interest Subsidy

Objective

- Interest subsidy to meritorious students belonging to other backward classes and economically backward classes.

Scope

- This a Central Sector Scheme, on the interest payable for the period of moratorium
- Approved courses of studies abroad at Masters and M phil/Ph D levels

Dr. Ambedkar Central Sector Scheme of Interest Subsidy

Eligibility, income ceiling and subsidy

Similar to Padho Pardesh

Thank You

For Clarifications, mail to
venu@vnv.ca