



AKME FINCON LIMITED

Policy on EMI Moratorium/Deferment of interest- COVID 19



Background and Objective

The World Health Organization recently declared COVID 19 to be a pandemic. Like some of the other countries in the World, the virus' impact has led the Indian Government to announce a lockdown across the country, to restrict it from spreading further. As a result, the country's economy is impacted leading to delay in cash flows for the business & self-employed and salary credits for the salaried segments. This has a direct impact on loan repayments as well.

Considering this issue, on March 27, 2020 the Reserve Bank of India (RB) announced various measures including moratorium on EMI payment for term loans/ deferment of interest in working capital facilities. (RBI Notification Ref: no RBI/2019-20/ 186 DOR.No.BP.BC.47/21.04.048/2019-20 "COVID-19 – Regulatory Package" dated March 27, 2020).

Key points of Notification issued by RBI :

1. Which lenders does the RBI COVID-19 Circular apply to?

The circular covers term loans and specified working capital facilities (i.e., cash credit and overdraft facilities) (a CC/OD Facility) granted by (i) commercial banks (ii) co-operative banks; (iii) all-India Financial Institutions and (iv) NBFCs (collectively, the Identified Lending Institutions). Except as specified by the RBI, the measures contemplated in the RBI COVID-19 Circular do not apply to other categories of lenders/ institutions such as:

- *overseas lenders and bond-holders (for instance, lenders of external commercial borrowings)*
- *asset reconstruction companies*
- *mutual funds, alternate investment funds and other institutions who may have subscribed to non-convertible debentures or similar debt securities*
- *counterparties to derivative transactions (even if they relate to underlying term loans).*

It is also worth noting that the measures contemplated in the RBI COVID-19 Circular do not apply to credit facilities generally but are currently only applicable to term loans and CC/OD Facilities.

2. What is the scope of the moratorium on term loans as contemplated in the RBI COVID-19 Circular?

(i) Suspension of 'installment' payments under term loans:

• *The circular applies to repayment of installments relating to term loans. A "term loan" has been defined by RBI to mean a loan which is repayable after a specified period. Therefore, any loan which has been granted for a specified period (as identified in the relevant loan agreement/ sanction letter) would be treated as a term loan for the purposes of the RBI COVID-19 Circular.*

- *RBI has permitted the Identified Lending Institutions to allow:*



(a) a moratorium/ temporary suspension of 3 months for payment of all installments relating to term loans falling due in the period 1 March 2020 – 31 May 2020 (Specified Period); and

(b) a corresponding extension in the residual tenor of the term loans. Therefore, the time for payment can be extended for 3 months from the date of each installment falling due during the Specified Period.

• *The circular also clarifies:*

(a) that the suspension of payment of “installments” would cover all installments, whether of principal (bullet or otherwise), interest, EMIs or credit card dues;

(b) interest on term loans would continue to accrue during the payment moratorium period.

*(ii) **Board approved policy:***

• *The RBI COVID-19 Circular contemplates that Identified Lending Institutions are “permitted” to provide the reliefs relating to term loans to all eligible borrowers in terms of a policy approved by the respective boards of such Identified Lending Institutions (each, a COVID BOD Approved Policy), which policy should also be disclosed in the public domain. Accordingly, given that the RBI COVID-19 Circular contemplates a moratorium on the installment payment obligations for all term loans across the board, the respective boards of the Identified Lending Institution will need to consider and specify the criteria while granting the benefits (of suspension of such installments and/ or tenor extensions) to the eligible borrowers as part of its COVID BOD Approved Policy.*

*(iii) **NPA provisioning:***

• *The RBI COVID-19 Circular contemplates that an extension of the term loan installment will not by itself be categorized as a restructuring on account of “financial difficulties of the borrower” or result in a downgrade in asset classification of the underlying term loan. However, if a borrower had already defaulted on its payment obligations or, the account was facing stress prior to the date of the RBI Statement and such stress was unrelated to the COVID-19 pandemic, the relevant Identified Lending Institutions may need to assess such accounts on a case-by-case basis subject to their COVID BOD Approved Policy and in accordance with the extant asset classification norms.*

3. What is the scope of the interest deferment for a CC/OD Facility contemplated under the RBI COVID-19 Circular?

(i) Interest on CC/ OD Facility:

• *Paragraph 3 of the RBI Statement contemplates: (a) interest on a CC/OD Facility continuing to accrue; (b) but not having to be paid by the borrower for a period of 1 March till 31 May 2020. However, unlike the case for term loans where the moratorium applies for 3 months*



from the date of each installment falling due during the Specified Period, for a CC/OD Facility, the accrued interest shall be payable immediately after 31 May 2020.

- Borrowers continue to have the right to continue paying as per the existing terms relating to the CC/OD Facility.*

*(ii) **Repayment of CC/ OD Facility:***

- Currently, paragraph 3 of the RBI COVID-19 circular only contemplates a deferral of interest payment on a CC/OD Facility for the period up to 31 May 2020. Unlike in the case of term loans (where the RBI has clarified that the moratorium would apply to all amounts, principal or interest), for a CC/ OD Facility, if the borrower is contractually required to repay the outstanding amounts under the CC/OD Facility, the RBI COVID-19 Circular does not provide any deferment or moratorium on such repayment obligation.*

4. How should Identified Lending Institutions evaluate proposals for additional funding of CC/ OD Facilities?

(i) For the purposes of providing CC/OD Facilities, Identified Lending Institutions have been granted the ability to re-assess the drawing power of the borrowers taking into account revised working capital requirements or, by reducing the margins required to be maintained by borrowers.

(ii) The relevant lenders will also need to satisfy themselves that such a recalculation of drawing power or associated consideration is in fact necessitated on account of the economic fall out of the COVID-19 pandemic (as applicable to the relevant borrower) and such considerations being taken into account (by the lender) will be subject to regulatory scrutiny⁸.

(iii) In this regard, the COVID BOD Approved Policy of the Identified Lending Institutions should contain objective criteria regarding the manner in which such additional CC/OD Facilities are to be evaluated and provided (which should also be disclosed by the relevant lender in the public domain).

(iv) While this flexibility has been granted, there is no obligation on the Identified Lending Institutions to provide additional funding in instances where the other terms of the credit facilities are not being complied with.

AT AKME Fincon Limited :

The above RBI Notification inter alia mandates disclosure, in public domain, the Board approved policy for providing above mentioned reliefs. Accordingly, the following customer specific points of the Board approved Policy of **AKME Fincon Limited (AFL)** is placed for information of the customers.



A. Customers eligible for moratorium/deferment:

Customers satisfying following criteria would be eligible to seek for EMI moratorium/interest deferment:

1. All the salaried/self-employed, Individual and non-individual borrowers (including Ltd companies, Partnerships & Proprietorships etc.) across products having outstanding loans as at 1st March 2020.
2. The account can be Standard or otherwise.
3. The account must not have been Witten-off from the books of AFL's books at end of the month preceding the month in which moratorium/deferment is requested for
4. The customers must submit consent for terms and conditions governing the moratorium and for the revised repayment schedule.
5. The offer of moratorium/decrement and acceptance may be through any mode of communication (Email/Digital Document/ Physical Document).

B. Restrictions:

Following are the restrictions:

1. Borrowers under Negotiable Instrument Act, SARFAESI, Insolvency proceedings & borrowers classified as Fraud, will continue to remain ineligible.
2. National Company Law Tribunal (NCLT)/Insolvency & Bankruptcy Code (IBC) cases are not eligible for moratorium/deferment without express approval from NCLT/IBC
3. The Borrower account should not classify under NPA any period of time during Loan Tenure.
4. No Recovery Action has been initiated against the Borrower.

C. Details of Reliefs Eligible:

Vehicle Loan :

- a. Moratorium of EMI/Interest deferment due from the month of March 2020 to May 2020 (up to 3 months).
- b. The tenor of the Term Loans will get extended by 3 months without the change in amount of EMI with the deferred installments being collected after the end of original tenor, with interest of the deferred period capitalized and recovered thereafter.

Term Loans/Mortgage Loan/ Business Loan/working Capital Loan :

- a. Moratorium of EMI deferment due from the month of March 2020 to May 2020 (up to 3 months).
- b. The tenor of the Term Loans will get extended by 3 months without the change in amount of EMI with the deferred installments being collected after the end of original tenor of the deferred period capitalized and recovered thereafter.
- c. Interest on Term loans continue to be paid by the Borrower on Outstanding of Principle loan amount.



NOTE:

Once a customer approaches AFL with a request for EMI moratorium/interest deferment, it will have evaluated and if satisfied with the merits of the case, EMI moratorium/interest deferment will be considered at the sole discretion of AKME FINCON Limited.