# <u>POLICY ON MORATORIUM OE LOAN EMI's</u>

## OVERVIEW

RBI Governor has permitted, all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies and micro-finance institutions) to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020.

## PURPOSE

RBI has extended this relaxation to mitigate the impact of the coronavirus outbreak on businesses and employees in India. These measures are intended to reduce the burden on debt-servicing caused due to disruptions on account of COVID-19 pandemic.

RBI has asked the lending institutions to put in place a board approved policies on the moratorium or the deferment.

## NORMS

**MORATORIUM** is a sort of granting of a 'holiday'- it is a repayment holiday where the borrower is granted an option to not pay during the moratorium period.

Moratorium is to be **granted for three months on payment of all instalments falling due between March 1, 2020 and May 31, 2020 for all the loans outstanding on 1st March, 2020.** The intention is to shift the repayment dates by three months. Therefore, the moratorium will start from the due date, falling immediately after 1st March, 2020, against which the payment has not been made by the borrower.

The Company can use its discretion to allow a moratorium of up to three months i.e. it is not necessary to provide a compulsory moratorium of three months, it can be less than three months as well. The Company may assess where the disruption is likely to adversely impact the repayment capacity of the borrower and take a call based on such assessment.

Moratorium being a relief granted to the borrower, the option lies with the borrower to either repay the loan during this moratorium as per the actual due dates or avail the benefit of the moratorium. Such payments will not be considered as prepayment or advance payment.

**Impact on the NPA classification on the following loans -**

Standard Loans as on March 1, 2020 - In case of standard loan, the moratorium period will not be considered for computing default and hence, it will not result in downgrade of asset classification.

NPA as on March 1, 2020 - The loan already classified as NPA shall continue with the same classification, however, may be granted an exemption from payment during the moratorium period and there shall not be any further asset classification deterioration during the moratorium period.

In short, during the period of the moratorium, there is no contractual obligation on the part of the borrower to repay loan. Therefore, there is a standstill, and hence, there is no NPA classification or down gradation of loans during this period.

**Impact on the loan tenure and the EMI due to the moratorium -**

There will be an interest accrual during the period of moratorium, such interest will be added to principal and company may have discretion (in the interest of the customer) to increase EMI or adjust the tenor in view of retaining same EMI.

**Revision in interest rate and levy of penal interest or delayed payment charges-**

No revision in interest rate to be done during the moratorium, unless required by regulatory norms.

During the moratorium there will be no delayed payment charges to be levied, as the EMI payment is contractually stopped, hence there will be no payment due, and consequentially there will be no default.

**Impact on the Credit Information Companies (CICs) reporting -**

The moratorium on term loans, will not qualify as a default for the purposes of supervisory / regulatory reporting and reporting to CICs by the lending institutions. Hence, there will be no adverse impact on the credit history of the beneficiaries.