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Policy guidelines on Restructuring of Advances

This policy document has been prepared in conformity with Prudential Guidelines on Restructuring of Advances by UCBs issued by RBI.

1. General: 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. Restructuring would normally involve modification of terms of the advances / securities, which would generally include, among others, alteration of repayment period / repayable amount / the amount of instalments / rate of interest (due to reasons other than competitive reasons).

If an account is restructured a second (or more) time(s), the account will be considered as a 'repeatedly restructured account'. However, if the second restructuring takes place after the period up to which the concessions were extended under the terms of the first restructuring, that account shall not be reckoned as a 'repeatedly restructured account'.

2.Objectives: The basic objective of restructuring is to preserve economic value of units and not ever-greening of problem accounts. This can be achieved by careful assessment of the viability, quick detection of weaknesses in accounts and a time-bound implementation of restructuring packages. The prudential guidelines will be applicable to all categories of debt restructuring other than those restructured on account of natural calamities, which will continue to be governed by the extant guidelines. The principles and prudential norms laid down are applicable to all advances, including borrowers who are eligible for special regulatory treatment for asset classification.

3. Eligibility criteria for Restructuring of Advances

3.1 Bank may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories.

3.2 Bank shall not reschedule / restructure / renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply. The process of re-classification of an asset shall not stop merely because restructuring proposal is under consideration. The asset classification status as on the date of approval of the restructured package by the competent authority would be relevant to decide the asset classification status of the account after restructuring / rescheduling / renegotiation. The Bank shall ensure that there is no undue delay in sanctioning a restructuring package which may result in deterioration in asset classification status of the account.

3.3 Normally, restructuring cannot take place unless alteration / changes in the original loan agreement are made with the formal consent / application of the debtor. However, the process of restructuring can be initiated by the bank in deserving cases subject to customer agreeing to the terms and conditions.

3.4 No account will be taken up for restructuring by the bank unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package. The viability shall be determined by the Bank, which may be applied on a case-by-case basis, depending upon merits of each case. Restructuring of a stressed account shall be considered by the Bank by looking into cash flows of the borrower and assessing the viability of the projects / activity financed by bank.

3.5 The borrowers indulging in frauds and malfeasance will continue to remain ineligible for restructuring by the Bank.

4. Prudential Guidelines on Restructuring of Advances: The prudential guidelines on restructuring of advances are detailed a under:

(a) Asset Classification Norms

4.1 Restructuring of advances could take place in the following stages:

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

4.2 The accounts classified as 'standard assets' shall be immediately re-classified as 'sub-standard assets' upon restructuring.

4.3 The non-performing assets, upon restructuring, would slip into further lower asset classification category as per extant asset classification norms with reference to the pre-restructuring repayment schedule.

4.4 All restructured accounts which have been classified as non-performing assets upon restructuring, would be eligible for upgradation to the 'standard' category after observation of 'satisfactory performance' during the 'specified period' i.e. one year from the date when the first payment of interest or instalment of principal falls due under the terms of restructuring package. Satisfactory performance means adherence to the condition that the account shall not be out of order any time during the specified period. In addition there should not be any overdue at the end of the specified period.

4.5 In case, however, satisfactory performance during the specified period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the **pre-restructuring payment schedule**. Satisfactory performance during the specified period means adherence to the following conditions during that period.

- In case of cash credit accounts, the account shall not be out of order any time during the specified period and there should not be any overdue at the end of the specified period; and
- In case of term loans, no payment should remain overdue for a period of more than 90 days. In addition, there shall not be any overdue at the end of the specified period.

4.6 Any additional finance may be treated as 'standard asset', up to a period of one year after the first interest / principal payment, whichever is earlier, falls due under the approved restructuring package.

However, in the case of accounts where the pre-restructuring facilities were classified as 'sub-standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis. If the restructured asset does not qualify for upgradation at the end of the above specified one year period, the additional finance shall be placed in the same asset classification category as the restructured debt.

4.7 In respect of loan accounts which enjoy special regulatory treatment as per para 4.25, upon restructuring, such non-performing assets would continue to have the same asset classification as prior to restructuring. In case satisfactory performance of the account is not evidenced during the 'specified period', it would slip into further lower asset classification categories as per extant asset classification norms with reference to the **pre-restructuring repayment schedule**.

4.8 In case a restructured asset, which is a standard asset on restructuring, is subjected to restructuring on a subsequent occasion, it should be classified as substandard. If the restructured asset is a sub-standard or a doubtful asset and is subjected to restructuring, on a subsequent occasion, its asset classification will be reckoned from the date when it became NPA on the first occasion. However, such advances restructured on second or more occasion may be allowed to be upgraded to standard category after one year from the date of first payment of interest or repayment of principal whichever falls due earlier in terms of the current restructuring package subject to satisfactory performance.

(b) Income Recognition Norms

4.9 Subject to provisions of clause 4.6 and 4.22 interest income in respect of restructured accounts classified as 'standard assets' will be recognized on accrual basis and that in respect of the account classified as 'non performing assets' will be recognized on cash basis.

(c) Provisioning Norms

4.10 Normal Provisions

Bank will hold provision against the restructured advances on the basis of classification of assets into prescribed categories as detailed in paragraph 5 below.

4.11 Provision for Diminution in the Fair Value of restructured Advances

Reduction in the rate of interest and / or re-schedulement of the repayment of principal amount, as part of restructuring, will result in diminution in the fair value of the advance. Such diminution in value is an economic loss for the Bank. It is, therefore, necessary for the bank to measure such diminution in the fair value of the advance and make provisions for it by debit to P & L Account in addition to the provisions as per existing provisioning norms and in an account distinct from that for normal provisions.

The erosion in the fair value of the advance shall be computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring will be computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring". Fair value of the loan after restructuring will be computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at a rate equal to the bank's BPLR as on the date of restructuring plus the appropriate term premium and credit risk premium for the borrower category on the date of restructuring".

4.12 It may please be noted that the above formula moderates the swing in the diminution of present value of loans with the interest rate cycle and will have to be followed consistently in future.

4.13 Further, it is reiterated that the provisions required as above arise due to the action of the banks resulting in change in contractual terms of the loan upon restructuring which are in the nature of financial concessions. These provisions are distinct from the provisions which are linked to the asset classification of the account classified as NPA and reflect the impairment due to deterioration in the credit quality of the loan. Thus, the two types of the provisions are not substitute for each other.

4.14 It is also re-emphasised that the guidelines on restructuring of advances by RBI are aimed at providing an opportunity to preserve the economic value of the units and shall not be looked at as a means to evergreen the advances.

4.15 The Bank shall make disclosures in its published balance-sheet regarding number of accounts, amount outstanding and diminution in fair value of all restructured accounts under standard, sub-standard and doubtful category. Further, number of borrowers and amount outstanding in case of application for restructuring under process – package not approved shall be disclosed.

4.16 In the case of working capital facilities, the diminution in the fair value of the cash credit / overdraft component may be computed as indicated in para 4.11 above, reckoning the higher of the outstanding amount or the limit sanctioned as the principal amount and taking the tenor of the advance as one year. The term premium in the discount factor would be as applicable for one year. The fair value of the term loan components (Working Capital Term Loan and Funded Interest Term Loan) would be computed as per actual cash flows and taking the term premium in the discount factor as applicable for the maturity of the respective term loan components.

4.17 In the event any security is taken in lieu of the diminution in the fair value of the advance, it should be valued at Re.1. This will ensure that the effect of charging off the economic sacrifice to the Profit & Loss account is not negated.

4.18 The diminution in the fair value may be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower. Consequently, bank may provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

4.19 If due to lack of expertise / appropriate infrastructure, the bank finds it difficult to ensure computation of diminution in the fair value of advances extended by small branches, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, bank will have the option of notionally computing the amount of diminution in the fair value and providing therefore, at five percent of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than rupees one crore.

4.20 The total provisions required against an account (normal provisions plus provisions in lieu of diminution in the fair value of the advance) are capped at 100% of the outstanding debt amount.

(d) Prudential Norms for Conversion of Unpaid Interest into 'Funded Interest Term Loan' (FITL)

4.21 Asset Classification Norms

The FITL created by conversion of unpaid interest will be classified in the same asset classification category in which the restructured advance has been classified. Further movement in the asset classification of FITL would also be determined based on the subsequent asset classification of the restructured advance.

4.22 Income Recognition Norms

(i) The income, if any, generated may be recognised on accrual basis, if FITL is classified as 'standard', and on cash basis in the cases where the same has been classified as a non-performing asset.

(ii) The unrealised income represented by FITL should have a corresponding credit in an account styled as "Sundry Liabilities Account (Interest Capitalization)".

(iii) Only on repayment in case of FITL, the amount received will be recognized in the P&L Account, while simultaneously reducing the balance in the "Sundry Liabilities Account (Interest Capitalisation)".

(e) Special Regulatory Treatment for Asset Classification

4.23 The special regulatory treatment for asset classification, in modification to the provisions in this regard stipulated in para 4.1 to 4.8, will be available to the borrowers engaged in important business activities, subject to compliance with certain conditions as enumerated in para 4.28 below. Such treatment is not extended to the following categories of advances:

(i) Consumer and personal advances including advances to individuals against the securities of shares / bonds / debentures, etc.

(ii) Advances to traders

4.24 The asset classification of the above two categories of accounts as well as that of other accounts which do not comply with the conditions enumerated in para 4.28, will be governed by the prudential norms in this regard described in para 4.1 to 4.8 above.

(f) Elements of Special Regulatory Framework

4.25 The special regulatory treatment has the following two components:

(i) Incentive for quick implementation of the restructuring package.

(ii) Retention of the asset classification of the restructured account in the pre restructuring asset classification category.

4.26 Incentive for Quick Implementation of the Restructuring Package

During the pendency of the application for restructuring of the advance with the bank, the usual asset classification norms would continue to apply. The process of reclassification of an asset should not stop merely because the application is under consideration. However, as an incentive for quick implementation of the package, if the approved package is implemented by the bank within 90 days from the date of receipt of application by the bank, the asset classification status may be restored to the position which existed when the restructuring application was received by the bank.

4.27 Asset Classification Benefits

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para 4.1 to 4.8:

- In modification to para 4.2, an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.
- In modification to para 4.3, during the specified period, the asset classification of the sub-standard / doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

4.28 However, these benefits will be available subject to compliance with the following conditions:

i) The dues to the bank are 'fully secured' when it is fully covered by the value of security, duly charged in its favour in respect of those dues, While assessing the realisable value of security, primary as well as collateral securities would be reckoned, provided such securities are tangible securities and are not in intangible form like guarantee etc., of the promoter / others. However, for this purpose the bank guarantees, State Government Guarantees and Central Government Guarantees will be treated on par with tangible security. The condition of being fully secured by tangible security will not be applicable in the following cases:

- SSI borrowers, where the outstanding is up to ₹25 lakh.
- Infrastructural projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing bank(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.
- WCTL created by conversion of the irregular portion of principal dues over the drawing power, subject to the condition that provisions are made against the unsecured portion of the WCTL, as under :
  - Standard Assets: 20%
  - Sub-standard Assets: 20% during the first year and to be increased by 20% every year thereafter until the specified period (one year after the first payment is due under the terms of restructuring);
  - If the account is not eligible for upgradation after the specified period, the unsecured position will attract provision of 100%.

ii) The unit becomes viable in 10 years, if it is engaged in infrastructure activities, and in 7 years in the case of other units.

iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances. The Board of Directors of the banks should prescribe the maximum period not exceeding 15 years for restructured advances keeping in view the safety and soundness of advances.

iv) Promoters' sacrifice and additional funds brought by them should be a minimum of 15% of banks' sacrifice.

v) Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry.

vi) The restructuring under consideration is not a 'repeated restructuring' as defined above.

(g) Disclosures

4.29 Bank shall disclose in its published annual Balance Sheet, under 'Notes on Accounts', information relating to number and amount of advances restructured and the amount of diminution in the fair value of the restructured advances as already stated in clause 4.15 above.

4.30 Resolution of Covid-19 related stress implemented under various circulars/guidelines shall be subject to the specific requirements, including the prudential requirements, specified therein.

5. Asset Classification – Bank shall classify its assets into the following broad groups -

i. Standard Assets
ii. Sub-standard Assets
iii. Doubtful Assets
iv. Loss Assets

5.1. Standard Assets: Standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

5.2. Sub-standard Assets: An asset would be classified as sub-standard if it remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrowers / guarantors or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

5.3. Doubtful Assets: An asset is required to be classified as doubtful, if it has remained NPA for more than 12 months. A loan classified as doubtful has all the weaknesses inherent as that classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full.

5.4. Loss Assets: A loss asset is one where loss has been identified by the bank or internal or external auditors or by the Reserve Bank of India's inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered un-collectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

5.5. Erosion of security: In respect of accounts where there are potential threats to recovery on account of erosion in the value of security, it will not be prudent for the bank to classify them first as sub-standard and then as doubtful after expiry of 12 months from the date the account has become NPA. Such accounts should be straight away classified as doubtful asset or loss asset, as appropriate, irrespective of the period for which they have remained as NPA.

5.6. Upgradation of accounts: Bank may not upgrade the classification of an advance in respect of which the terms have been re-negotiated unless the package of re-negotiated terms has worked satisfactorily for a period of one year. While the existing credit facilities sanctioned to a unit under rehabilitation packages approved by term lending institutions will continue to be classified as sub-standard or doubtful, as the case may be, in respect of additional facilities sanctioned under the rehabilitation packages, the income recognition and asset classification norms will become applicable after a period of one year from the date of disbursement. A similar relaxation may be made in respect of SSI units which are identified as sick by the bank.

5.7. Internal System for Classification of Assets as NPA

The bank may put in place a system based asset classification to ensure that identification of NPAs is done on an on-going basis and accounts are classified as NPA immediately, as soon as they turn into NPA. Till such time, it is implemented the bank may fix a minimum cut-off point to decide what would constitute a high value account depending upon their respective business levels. The cut-off point should be valid for the entire accounting year.

5.8. Treatment of NPAs - Borrower-wise and not Facility-wise: In respect of a borrower having more than one facility with the bank, all the facilities granted by the bank will have to be treated as NPA and not the particular facility or part thereof which has become irregular/NPA.

5.9. **Housing Loan to Staff:** In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first month onwards. Such loans / advances shall be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.

5.10. Other Advances

(i) Advances against term deposits, NSCs eligible for surrender, KVPs and Life policies need not be treated as NPAs although interest thereon may not have been paid for more than 90 days, provided adequate margin is available in the accounts.

(ii) Bank may fix monthly / quarterly instalments for repayment of gold loans for non-agricultural purposes taking into account the pattern of income generation and repayment capacity of the borrowers and such gold loan accounts may be treated as NPAs if instalments of principal and / or interest thereon are overdue for more than 90 days.

6. Procedure:

- The restructuring would follow a receipt of a request to that effect from the borrowing units;
- In case of eligible SMEs which are under consortium / multiple banking arrangements, the bank with the maximum outstanding may work out the restructuring package, along-with the bank having the largest share;
- Any pre-payments by the borrowers with an intention to reschedule the repayments may not be considered by the Bank. However, based on certain performance criteria and establishing financial viability of the borrower, the Bank may, at its discretion and with the prior approval of the BoM/Board, may consider re-scheduling of instalments on case specific basis.

7. Review: The progress in rehabilitation and restructuring of accounts shall be reviewed on a quarterly basis and the position would be placed before the Board of Directors.

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