

Citibank India Policy on Regulatory Measures announced by RBI

Resolution Framework 2.0 for Covid-19 related stress – Small Business

Background

Covid-19 has resulted in severe disruption of economic activity in the country, potentially affecting customers' financial condition and the ability to repay loans. The Reserve Bank of India (RBI) vide its Circular dated 27 Mar 20 permitted the financial institutions to grant a moratorium of three months on payment of all instalments falling due between 1st Mar 2020 and 31st May 2020. RBI further extended the moratorium until 31st Aug 2020. Subsequently, RBI launched Resolution framework 1.0 in Aug'20.

Given the recent second wave since March 2021, the RBI has further rolled out a revised Resolution plan 2 circular, vide Circular RBI/2021-22/31 DOR.STR.REC.11/21.04.048/2021-22, with the objective of alleviating the potential stress to individual borrowers and small businesses from COVID Wave 2.

Salient features of the latest circular

The Resolution Framework 2.0 allows for Resolution for Individual & Small businesses, including those engaged in retail and wholesale trade, other than those classified as micro, small and medium enterprises as on March 31, 2021, and to whom the lending institutions have aggregate exposure of not more than Rs.50 crore as on March 31, 2021. Further:

- Resolution plans to exclude staff from Resolution plan offers and is not allowed for loans > Rs.50 crores
- The last date of invocation of resolution is 30 Sep '21
- The resolution plans implemented under this window may inter alia include rescheduling of payments, conversion of any interest accrued or to be accrued into another credit facility, revisions in working capital sanctions, granting of moratorium etc. based on an assessment of income streams of the borrower. However, compromise settlements are not permitted as a resolution plan for this purpose
- The resolution plan may also provide for conversion of a portion of the debt into equity or other marketable, non-convertible debt securities issued by the borrower
- For borrower to be eligible, account should be Standard in the books of bank as on 31st March 2021

Key Revisions between Resolution Framework - 2.0 from Resolution Framework - 1.0

- Borrowers having availed of Resolution framework 1 cannot be offered in Resolution framework 2, except under clause 22. As per Clause 22, Customers previously given Resolution plan under Resolution framework 1, can be given an extension ensuring overall tenor does not exceed 2 years. Asset classification for these loans to apply as per resolution framework 1.0
- Customer communication on final decision is required to be closed within 30 days of application



Bank's Policy on Granting Relief under the Circular

If relief under this policy by way of one-time restructuring is proposed, the following process shall be followed.

a. Application

For a borrower to be considered for Covid-19 relief under this Policy a request letter /email from authorized representative is to be obtained.

b. Evaluation

The borrower shall be evaluated under the following parameters:

- i) Industry Outlook
- ii) Business Outlook
- iii) Latest available financials
- iv) Root cause of stress. It shall be required to be confirmed that stress is primarily on account of Covid-19 pandemic
- v) Remedial measures required / being taken
- vi) Financial projections with emphasis on leverage, liquidity and debt serviceability

Each business units of Citibank N.A. may prescribe additional evaluation metrics specific for the relevant business segment.

c. Invocation

Approval from Standing Committee shall be obtained for invocation of one-time-restructuring, Invocation shall be in form of an email / letter exchanged between Citibank and Borrower that one-time restructuring under relevant circular is being taken up. This communication must be completed by 30 Sep 2021 which is the last date of invocation under Covid-19 relief.

Decision on invocation of this onetime restructuring shall be communicated by Citibank to borrower within 30 days of receipt of application from Borrower.

d. Restructuring Proposal:

Approval from Standing Committee shall be obtained for restructuring proposal.

Each business unit of Citibank N.A. may prescribe additional details specific for the relevant business segment to be provided as part of restructuring proposal.

e. Implementation:

Restructuring Plan is to be implemented within 90 days within from date of invocation. Implementation shall be considered as complete if

- i) all related documentation, including execution of necessary agreements between Citibank and borrower and collaterals provided, if any, are completed in consonance with the restructuring being implemented.
- ii) the changes in the terms of conditions of the loans get duly reflected in the records of Citibank.
- iii) Borrower is not in default as per the revised terms, and

f. Working capital re-assessment

In respect of accounts of borrowers which were restructured as above, Citibank N.A. may, as a one-time measure, review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. The decision with regard to above shall be taken by Citibank by September 30, 2021. The reassessed sanctioned limit / drawing power shall be subject to review of Citibank N.A. at least on a half yearly basis and the renewal / reassessment at least on an annual basis. The annual renewal/reassessment shall be expected to suitably modulate the limits as per the then-prevailing business conditions.