

FAQs ON MORATORIUM ALLOWED BY RBI

In order to deal with economic fallout and disruption caused due to COVID-19 which has been declared as a Pandemic by WHO and has led to the lockdown of the entire country, Reserve Bank of India (RBI) has come up with significant measures and relief to address the financial stress caused to the business class as well as salaried persons in these difficult times. These measures, *inter alia*, aimed to reduce the repayment pressures on the existing debt as well as to address the issue of increased working capital requirement in the businesses.

To achieve the above objectives, RBI has issued detailed **Statement on Developmental and Regulatory Policies** on March 27, 2020 and through release of subsequent detailed instructions through **COVID-19 Regulatory Package** issued on even date, it allowed rescheduling the payments of Term loans and working capital facilities through permission to the lending institutions to offer Moratorium period. Details of the above scheme are highlighted through below FAQs.

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1. What is moratorium?

Moratorium is simply the extension offered by the lenders for the scheduled repayment of loans. It is a repayment holiday but should not be treated as a waiver. Payment becoming due during this period will eventually need to be repaid once the moratorium period expires.

As per the RBI circular, moratorium can be offered by lending institution on the payment of all installments which includes (i) principal and/or interest component; (ii) bullet repayments; (iii) EMI payment; (iv) credit card dues.

2. What is the period of moratorium?

This moratorium facility can be offered for the installments falling due during the period of three months between 01.03.2020 to 31.05.2020. Hence, any payment which became due prior to 01.03.2020 will not be covered under this facility.

3. What types of loans are covered in this moratorium?

All type of term loans such as Home Loans, Auto Loans, Personal loans, Loan against property, Business loans; Consumer Durable loans; Agriculture term loans, Crop loans, Credit card dues; Working capital facilities in the form of Cash Credit / overdraft facilities which are outstanding as on 01.03.2020 are covered under this moratorium facility.

4. Which lending institutions are covered in the Moratorium?

All commercial banks including Regional Rural Banks, Small Finance Banks and local area banks; co-operative banks; All-India Financial Institutions and Non-Banking Finance Companies (NBFCs) including Housing Finance Companies are covered under these guidelines.

5. As per RBI directive, are all borrowers exempt from paying EMI or interest during the moratorium period?

RBI has permitted the financial institutions to allow a moratorium of 3 months. It is not compulsory for the lending institutions to provide such

moratorium. The lending institution through its policy may define the borrowers eligible for the moratorium. Hence, the borrowers shall refer to the policy of their respective lending institution to assess their eligibility to avail the benefit.

6. Whether all lending institutions have to follow a common policy or they can opt for different policies?

As the grant of moratorium is completely discretionary on the part of the lender, it is required by the RBI that each lender will formulate their board approved policy specifying the detailed guidelines and operational part of this scheme. The lending institutions will be making their policy available in public domain by way of their website or otherwise. Hence, it is advisable to the borrowers to refer to their lender specific policy before taking any action.

7. How can a borrower avail the benefit of moratorium?

Modes of approaching the lender and opting for this facility will be governed by board approved policy of the lender. If a borrower wants to opt for the moratorium, it should read the policy of the concerned lending institution and take appropriate actions mentioned therein.

8. Whether interest will accrue during this moratorium period?

RBI circular has clearly stated that interest will continue to accrue during this moratorium period on the outstanding portion of the term loans or working capital facility and therefore, the borrower needs to take into account that opting for moratorium would ultimately result in higher cost.

9. When will the borrower be required to repay the interest accrued during the moratorium period?

In case of term loans, such interest may be collected either through increasing the remaining loan tenor or increasing the EMI amount. Thus, it will depend on the lender specific policy.

In case of working capital facility, the accrued interest amount of the moratorium period needs to be paid off immediately after such period expires as specifically provided in the RBI circular.

10. Will there be any overdue or penal charges applicable if the borrowers opt for a moratorium?

Since it is relief offered by the lenders to their customers in this difficult time, no overdue or penal charges shall be levied by the lenders in case of delay or non-payment during this moratorium period of three months.

11. If the borrower has already paid the EMI/interest for the month of March 2020, can he avail the benefit for next two months?

Yes, he can avail the benefit for the next two months through approaching the lender and expressing his intension to avail the benefit. As such, there is no restriction that benefit will be available only for complete period of 3 months.

12. If the borrower has not paid the EMI/interest for the month of March 2020, can he avail the benefit herein?

Yes. If the lending institution has made the moratorium facility available, borrower can avail the benefit of moratorium for his unpaid EMI of March 2020, if any and the remaining EMI/interest for April 2020 and May 2020 by approaching his lender.

13. What will happen to an EMI or interest due prior to 1st March 2020?

Since it is out of the purview of the moratorium period, it is payable to the lender as per original schedule. It will be subject to the existing terms and conditions as entered with the lender. Any delay in its payment may cause levy of penal or overdue charges, downgrade of account classification as per normal prudential norms and will be reportable to the credit information companies as well. Thus, it may impact the credit score and history of the borrower.

14. Do the borrowers need to submit fresh NACH Mandates or cheques for this?

If the lender keeps the EMI amount unchanged and extend the loan tenure, it will not be required to re-submit the NACH Mandates or cheques by the borrowers. However, if the EMI got changed keeping the remaining loan tenure same, then fresh mandate and/or PDCs may be required.

15. Whether there will be any impact on credit history or credit Score of the borrower due to this moratorium?

RBI has clarified that deferment in payment on account of this moratorium has been granted specifically to tide over from the economic fallout of COVID-19, it will not be treated as concession or restructuring of the loans, hence it will not impact, by itself, the credit history and credit score of the borrower.

16. What will be the impact on credit card dues?

The relief on credit card payments will depend upon lending institution policy.

In case of Credit Card dues, there is a requirement to pay minimum amount and if it is not paid the same gets reported to Credit Bureaus. In view of RBI Circular, the overdues in credit card account do not get reported to the credit bureaus for a period of three months, if your lending institution has extended this benefit.

However, interest will be charged by the credit card issuer on unpaid amount. As the interest rate on credit card dues are normally much higher compared to normal bank credit and borrower should take the decision accordingly.

17. Whether the account would be classified as NPA if this moratorium availed?

As mentioned above, this deferment in payment will not be treated as default and there will be no downgrading in asset classification. Hence, the loan account will not become NPA on account of availing this moratorium.

18. What will happen to the existing NPA accounts i.e. Whether they will be further downgraded or not on account of this moratorium?

Provided that the NPA account in question is covered under the policy of the lending institution and the borrower has availed the benefit under such policy, then such loans will not be further downgraded during the moratorium period. Effectively, this moratorium will maintain the status quo for a period of three months and the account will remain in the same category as it was classified as on 01.03.2020

Existing default account which is running under SARFAESI / DRT / Insolvency proceedings, etc may be specifically excluded from this facility by the concerned lending institution. For more clarity, it is advisable to refer the lender specific policy in this regard.

19. Who should opt for this facility?

Borrowers who are facing genuine difficulty in repaying the EMI/Interest on account of negative impact on their cash flows should avail this facility. However, if the borrower is not having hardship and have resources available to meet out their financial obligations, should pay them as per the original schedule as interest will continue to accrue during the moratorium period which will increase the overall burden of the borrower.

For eg. **SBI** in its clarification has explained following impact on loan facilities if the option of moratorium is exercised:

Impact in case of Auto Loan- For a loan of Rs. 6 lacs with a remaining maturity of 54 months the additional interest payable would be Rs. 19,000 approx. equal to additional 1.5 EMIs

Impact in case of Home Loan- for a loan of Rs. 30 lacs with a remaining maturity of 15 years, the net additional interest would be approx. Rs. 2.34 lacs equal to 8 EMIs