

## **RBI permits moratorium on Term Loans and deferment of interest on Working Capital Facilities**



Various representations were made by trade bodies, associations, banks and corporate houses to the Ministry of Finance as also the Reserve Bank of India (“RBI”), *inter alia* seeking moratorium on repayment of EMI’s for at least a period of three to six months. The RBI on 27 March 2020 issued a

press release<sup>[1]</sup> and a statement on development and regulatory policies<sup>[2]</sup> *inter alia* permitting moratorium on Term Loans and deferment of interest on Working Capital Facilities. In furtherance of the aforesaid, the RBI has also published a notification bearing no. DOR.No.BP.BC.47/21.04.048/2019-20 called COVID-19 – Regulatory Package<sup>[3]</sup>. The same has been done with an intention to mitigate the burden of debt servicing that has been caused due to the disruption caused by COVID-19 and prevent transmission of the financial stress on the economy and provide continuity to businesses.

### **What does the Notification provide for?**

#### **a. *Moratorium on Term Loans***

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) (“lending

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institutions”) have been permitted to allow a moratorium of three months on payment of installments in respect of all term loans outstanding as on 1 March 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by three months by the lending institutions. The installments covered under the aforesaid are for the period 1 March, 2020 to 31 May 2020 and includes principal and/or interest components; (ii) bullet repayments; (iii) Equated Monthly installments; (iv) credit card dues.

**b. *Deferment of interest on Working Capital Facilities***

Lending institutions are also permitted to allow deferment of interest on working capital facilities sanctioned in the form of cash, credit / overdraft outstanding as on 1 March 2020. The accumulated interest for the period will be paid after the expiry of the deferment period. In respect of the aforesaid, the lending institutions may recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. This step has been taken with the intention to permit the borrowers to specifically tide over the economic fallout from COVID-19 and consequently will not result in asset classification downgrade and will not be treated as change in terms and conditions of loan agreements.

The RBI has clarified that the rescheduling of payments in respect of moratorium granted on term loans, the deferring of interest payments on working capital and the easing of working capital financing will not qualify as a default for the purposes of supervisory reporting and reporting to credit information companies by the lending institutions. Hence, there will be no adverse impact on the credit history of the beneficiaries.

It has also been directed that wherever the exposure of a lending institution to a borrower is Rs.5 crores or above as on 1 March 2020, the lending institution shall develop an MIS (Management Information System) on the reliefs provided to its borrowers which shall inter alia include borrower-wise and credit-facility wise information regarding the nature and amount of relief granted.

The instructions in the circular / notification have come into force with immediate effect and the Board of Directors and the key management personnel of the lending institutions have been directed to ensure that the same are properly communicated down

the line in their respective organizations, and clear instructions are issued to their staff regarding their implementation.

## **What does moratorium on loan mean?**

**Borrowers will either have to approach their respective lending institution and get clarity regarding the implementation of the scheme and how to avail the same or wait for further guidelines from the lending institutions.**

Black's Law Dictionary defines "Moratorium" as "Delay in performing an obligation or taking an action legally authorized or simply agreed to be temporary". The Oxford Dictionary defines Moratorium as "A legal authorization to debtors to postpone payment."

Thus, the moratorium effectively means that the borrower need not pay the installments for a

specified period. In fact, the notification provides that the interest amounts would continue to accrue during the moratorium period and it is only the deferment of the period to make payment, which shall be permitted.

## **How does it benefit a borrower?**

Under normal circumstances if a loan repayment is deferred then the borrower's credit history and risk classification of the loan gets adversely impacted. However, in light of the moratorium, the borrower's credit rating will not be impacted in any manner.

## **How will the aforesaid be implemented? Can a borrower defer the EMI payments forthwith?**

No. RBI has merely permitted the lending institutions to offer a 3 month moratorium on term loans. It is upto the respective lending institution to formulate a policy of their own and get the same approved by the Board. However, there is no clarity whether the 'Board' referred to in the Notification of RBI is the Central Board or the Local Board as per the RBI Act, 1934.

Therefore, borrowers will either have to approach their respective lending institution and get clarity regarding the implementation of the

scheme and how to avail the same or wait for further guidelines from the lending institutions.

## Conclusion

It appears that all borrowers having term loans and working capital facilities will be entitled to the proposed scheme to be offered by the lending institutions. Though the aforesaid extraordinary step has been taken with an intention to bring in stability in the economy in light of the unprecedented circumstances and give relief to borrowers, it is to be seen how the lending institutions implement the same.

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[1] <https://rbidocs.rbi.org.in/rdocs/Content>

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[2] <https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR21302E204AFFBB614305B56DD6B843A520DB.PDF>

[3] <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI186B27003E9DB3D4FB49BDDF955F4289D68.PDF>

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