

**Board note for offering payment moratorium to the borrowers of Veritas Finance Private Limited (Veritas) with reference to the Reserve Bank of India (RBI) circular RBI/2019-20/186 DOR.No.BP.BC.47/21.04.048/2019-20 dated March 27,2020.**

**Background**

The Reserve Bank of India announced a series of measures on 27<sup>th</sup> March,2020 to directly address the stress in financial conditions caused by COVID-19 consisting of :

- (i) expanding liquidity in the system sizeably to ensure that financial markets and institutions are able to function normally in the face of COVID-related dislocations;
- (ii) reinforcing monetary transmission so that bank credit flows on easier terms are sustained to those who have been affected by the pandemic;
- (iii) easing financial stress caused by COVID-19 disruptions by relaxing repayment pressures and improving access to working capital; and
- (iv) improving the functioning of markets in view of the high volatility experienced with the onset and spread of the pandemic.

RBI noted that alongside liquidity measures, it is important that efforts are undertaken to mitigate the burden of debt servicing brought about by disruptions on account of the fall-out of the COVID-19 pandemic. Such efforts, in turn, will prevent the transmission of financial stress to the real economy, and will ensure the continuity of viable business model and provide relief to borrowers in these extraordinarily troubled times.

RBI circular dated March 27,2020 detailing the measures to ease debt servicing burden of borrowers of banks, NBFCs and HFCs is provided in Annexure 1. In terms of the circular, RBI has directed Lending institutions including NBFCs to frame Board approved policies for providing the reliefs mentioned in the circular to all eligible borrowers.

We have framed the moratorium policy for our MSME – Secured customers offering them the option to defer their payments and implemented the same. This policy note addresses the moratorium policy for our working capital customers whose repay the short term loans taken on a daily or weekly basis.

We had stopped collecting the daily repayments from March 21<sup>st</sup> 2020 , even before the RBI moratorium announcement. Hence the below policy would be for payments falling due from March 21<sup>st</sup> to May 31<sup>st</sup> May 2020

## Proposed policy

### Eligibility:

All Borrowers of Veritas who have availed **Working Capital loan and ACL ( Asset Creation Loans)** and have residual maturity post 21<sup>st</sup> March 2020.

Since Veritas grants finance facility to its customers under Working Capital loan, in line with RBI circular reliefs are proposed in respect of Working Capital Loan also.

### Process:

- A. Veritas proposes to offer the option of moratorium on payment of instalments falling due between 21<sup>st</sup> March 2020 and 31<sup>st</sup> May 2020 to all customers.
- B. Moratorium is offered to **all** the customers and there is **no customer confirmation** is required.
- C. The unpaid daily / weekly interest from 21<sup>st</sup> March 2020 to till 31<sup>st</sup> May 2020 shall be added back to the Principal and revised daily or weekly schedule will come into effect from 1<sup>st</sup> June 2020.
- D. The customers have already been communicated the decision of suspending the collection for ten days and now would be communicated the decision to resume collection from 1<sup>st</sup> June 2020
- E. Customer repayment days shall get increased accordingly to cover the repayment with moratorium interest and to maintain the initial contracted lending rate.
- F. There are few customers who continue to pay once in a while through digital mode on their own.
- G. In case where the customers continue to pay their repayments without opting for moratorium they can do so and there will be no change to their existing repayment schedule. However, it may be noted that since the product involves doorstep cash collection and since we have stopped physical collection , no collection has been made post March 21<sup>st</sup> 2020 and as such all customers are deemed to have opted for moratorium
- H. The OD accounts and NPA accounts would continue to be treated as OD and NPA and they would standstill and the effect of the non-payment of instalments during 21<sup>st</sup> March- 31<sup>st</sup> May 2020 would not further impact the NPA.
- I. As and when lockdown is lifted fully or partially, Veritas shall to the extent possible and feasible in various geographies where the product is

offered ,attempt to establish contact with these customers to keep them informed about the decision.

**Financial Impact**

Customer who opt for moratorium would repay the loan in the extended tenure and there would be an additional interest income recognition for this extended tenure.

**Asset Classification**

Since the moratorium is being provided specifically to enable the borrowers to come over the economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower under paragraph 2 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 ("Prudential Framework"). Consequently, such a measure, by itself, shall not result in asset classification downgrade. The asset classification of term loans which are granted relief as per this policy shall be determined on the basis of revised due dates and the revised repayment schedule.

**Supervisory and Credit Bureau Reporting**

The rescheduling of payments, including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies (CICs) by Veritas in line with RBI guidance. CICs are also expected to ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

**Implementation Plan**

We propose to form a three-member working group with immediate effect comprising Chief Business Officer, Chief Operating Officer and Chief Financial Officer to oversee the implementation of this policy including but not limited to communication of the policy within and outside the organisation, issuing instructions to the employees, customer communication, related changes in Loan Management Systems, development of MIS etc.