



SONATA FINANCE PRIVATE LIMITED

Policy for Resolution Framework for COVID-19-related Stress

Approved by the Board of Directors on 2nd June, 2021

Background

Considering the economic hardship that has arisen due to first and second wave of COVID 19, Reserve Bank of India (RBI) has come out with resolution plan 1.0 and 2.0. These resolution plans are relief measures for those borrowers who are struggling to manage their repayment of the loans taken for personal or business purposes and their credit worthiness among the financial institutions from whom they have taken the loans. Resolution plans 1.0 and 2.0 are released vide RBI circular DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020 and DOR.STR.REC.11/21.04.048/2021-22 dated May 5, 2021.

Based on the resolution plan 1.0 and 2.0 company has formulated this policy to extend the relief measures to its borrowers to deal with repayment challenges they are facing due to impact of the COVID -19. This policy shall be termed as the "Policy for Resolution Framework for COVID-19- related stress" and shall be read in line with the RBI guidelines.

Policy Objective

Policy objective is to understand the post COVID economic challenges faced by the company's borrowers and take appropriate measures under the preview of resolution plan 1.0 and 2.0 released by the RBI in order to ease out of the economic challenges faced by them.

Policy Scope

This policy will be applicable to those borrowers who are funded from the company's owned fund. The borrowers funded under the BC partnership, securitization or direct assignment will be dealt with the direction received from the respective lenders in this regards.

Through this policy Sonata Finance Private Limited (The Company) is permitted to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as Standard upon implementation of the resolution plan subject to the conditions specified under this policy. The invocation process under this scheme shall be completed on or before September, 30th 2021.



Policy Details

Eligibility of the borrowers

Following borrowers would be eligible under this plan

- Borrowers whose accounts were standard as on March 31,2021
- Borrowers who are facing stress on account of Covid-19, not otherwise
- The benefit under this scheme shall be extended to the limit of Rs. 2,00,000 for the Joint Liability Loans customers. The limit of benefit in case of Individual Loans and MEL loans shall be outstanding balance of Rs. 500,000/- per account.
- Borrowers engaged in small business, including retail and wholesale trade including the services sector
- Borrowers who have availed loans for home improvements, sanitation, emergency loans, utility loans, COVID relief loans etc.
- Borrowers who have taken loan for agriculture allied activity viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture will be eligible under this plan

However,all the farm credit exposures of the company, except for loans to allied activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture are excluded from the scope of the policy. Subject to the above, loans given to farmer households would be eligible for resolution under the policy if they do not meet any other conditions for exclusions listed in the Resolution Framework. Further the benefit of this scheme shall not be extended to the staff loans or advances.

Resolution Plan for Borrowers of the Company

Borrowers who are satisfying the condition of the eligibility criteria may opt to get the moratorium with or without extension of residual maturity up to 2 years. The moratorium facility may be provided by rescheduling of the repayment schedule up to two years. However, the overall cap on moratorium and / or extension of residual tenor granted under Resolution Framework – 1.0 and this framework combined, shall be two years

In case of accrued interest borrowers may chose following -

- Pay the accrued interest in lump sum after the end of moratorium period/extension of residual period
- Pay the accrued interest as extended instalments of the same amount as of the loan instalment at the end of loan instalment



Process for Implementing the Resolution Plan

Following process will be followed while implementing the resolution plan 2.0

- The borrower shall make a request and give a self- declaration regarding meeting of the eligibility criteria, through the mobile application "Sakhee". In case where the request is not through Sakhee App, the BRO shall take the self-declaration consent, from the borrower and will upload the same in the system. While making the request the borrower shall also choose the option of benefit she wish to avail from the company.
- Once the request of the borrower is received from any of the above method, the company shall evaluate the requirement of the borrower on the basis of her past record and a due diligence of the borrower shall be conducted through the field staff to understand the hardship being faced by the borrower due to outbreak of COVID-19.
- On the basis of the due diligence report the extension of the benefit to the borrower shall be determined. The request for grant of resolution up-to the balance outstanding amount of Rs. 40,000 and for the extension of period of maximum 1 year shall be reviewed by the concerned Branch Manager and shall be forwarded to the Vertical Operations head. However, in case of request for extension of repayment for more than 1 year or in case of outstanding of more than Rs 40,000, request shall be reviewed by the Regional manager of the concerned area and upon being satisfied shall forward to the vertical operations head for final approval.
- On receipt of the recommendations the vertical operations head shall approve/ reject the request of the borrower based on the decided parameters. The approval / rejection shall be communicated to the concerned and accordingly the loan shall be structured.
- Before recommending the request of the customer the credit bureau check shall be done by the concerned staff of the company
- Upon the approval of the benefit under this scheme, a document containing the revised terms and conditions along with the revised repayment schedule shall be sent to the borrower either physically or via Sakhee App. The Borrower shall give her/his acceptance through the digital process (OTP), which shall be treated as her consent, or in physical mode which shall be taken through the field staff. All the physical consent /resolution plan shall be uploaded into the system.
- The benefit so extended shall be flagged as restructured "RC-19" (restructured due to COVID-19). The status of the same shall be reported to the Credit Bureau within 1 month of the completion of resolution framework.
- Date of signing of resolution form will be treated as date of invocation of resolution process
- Company will ensure the implementation of resolution plan within 90 days of date of invocation of resolution process
- The invocation process will be completed on or before September 30, 2021.



- Company will upgrade its software to include the revised loan structure as per the resolution plan.

Grievance Redressal Process

At the time of invocation of resolution plan branch staff will once again orient the customer about the company grievance redressal process and ask them to raise the concern, if any, within 30 days of invocation of resolution, using same grievance redressal channel.

Process Control

The entire process shall be closely monitored by the controlling offices and the Head office and a nodal officer shall be appointed by Head office. Further the in house internal audit team shall monitor the implementation of the scheme and shall cover the observations, if any in the quarterly internal audit report.

Asset Classification and Provisioning

If a resolution plan is implemented in adherence to the provisions of this circular, the asset classification of borrowers' accounts classified as Standard may be retained as such upon implementation, whereas the borrowers' accounts which may have slipped into NPA between invocation and implementation may be upgraded as Standard, as on the date of implementation of the resolution plan

In respect of borrowers where the resolution process has been invoked, the company may sanction additional finance even before implementation of the plan in order to meet the interim liquidity requirements of the borrower.

This facility of additional finance as per the RBI circular shall be classified as 'Standard' till implementation of the plan regardless of the actual performance of the borrower in the interim. However, if the resolution plan is not implemented within the stipulated timelines, the asset classification of the additional finance sanctioned will be as per the actual performance of the borrower with respect to such additional finance or performance of the rest of the credit facilities, whichever is worse.

As the company is following IND-AS, the provision on such restructured accounts shall be maximum of ECL or 10% of the negotiated debt exposure under the resolution plan.

However, this minimum cap of 10% shall be reduced in happening of following events:

- a. If at least 20 per cent of the residual debt is serviced without slipping into NPA post implementation of the plan, then 50% of provision can be reversed
- b. Remaining half may be written back upon the borrower paying another 10 per cent of the residual debt without slipping into NPA subsequently.



Disclosure

Company will follow the RBI guidelines and prescribed template to report the accounts which are consider under resolution plan 2.0 and 1.0.