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NEWS LETTER | **Moratorium on Loan-EMIs** | COVID-19

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Reserve Bank of India Loan EMI Moratorium : Questions Answered

India declared Covid-19 as a notified disaster on 14 March 2020 which was on the lines of WHO declaring Covid-19 as a pandemic on 11 March 2020. Till that date there were more than 1,18,000 cases across 114 countries and more than 4,250 had lost their lives. With the Government of India declaring an official shut-down by Prime Minister Modi, it was abundantly clear that the situation is unprecedented in India and this will have serious repercussions in the economy.

The Reserve Bank of India (“**RBI**”), India’s central lender, on 27 March 2020 announced a Covid-19 package comprising several measures to help the financial sector and borrowers to deal with the pandemic and to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic and to ensure the continuity of viable businesses. It was felt that there could be a temporary disruption in the cash flows, and in some cases loss of income, for the businesses/individuals and there should be measures to bring relief to those businesses /individuals.

As one of the measures taken by RBI, it has ordered for rescheduling of all payments against terms loans and working capital facilities. The notification read “*In respect of all term loans (including agricultural term loans, retail and crop 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) (“lending institutions”) are permitted to grant a moratorium of three months on payment of all instalments falling due between March 1, 2020 and May 31, 2020. The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.*”

What is a term loan?

A term loan can be explained a loan from a bank for a specific amount that has a specified repayment schedule and either a fixed or floating interest rate. All home loans, vehicle loans, personal loans are examples of term loans.

Another type of loan is called a revolving loan. A revolving loan facility is a form of credit issued by a financial institution that provides the borrower with the ability to draw down or withdraw, repay, and withdraw again. A revolving loan is considered a flexible financing tool due to its repayment and re-borrowing accommodations. A credit card is the best example of revolving loan.

What does the notification mean and what it its impact on the borrowers?

Through the above-mentioned notification, the RBI has allowed all commercial banks, co-operative banks and NBFCs to grant a moratorium of three (3) months on payments of instalments for term loans falling due under the specific period between 1 March 2020 and 31 May 2020. The moratorium is applicable on both principal and the interest component. The fine print is that interest will get accrued on the loan during the moratorium period.

Hence, a borrower who has availed a home loan or a vehicle loan from any of the type of lenders mentioned in the notification is eligible to defer the payment of the EMIs to its lender for the payments that would fall between the dates 1 March 2020 to 31 May 2020, provided the lender has granted the moratorium to the borrower. This will result in an increase in the existing EMI or an extension of the residual term of the loan to amortize the accumulated interest along with the principal. It is pertinent to note that this deferment of principal and interest payment shall not be construed as a waiver and hence the interest will continue to accrue on the principal amount.

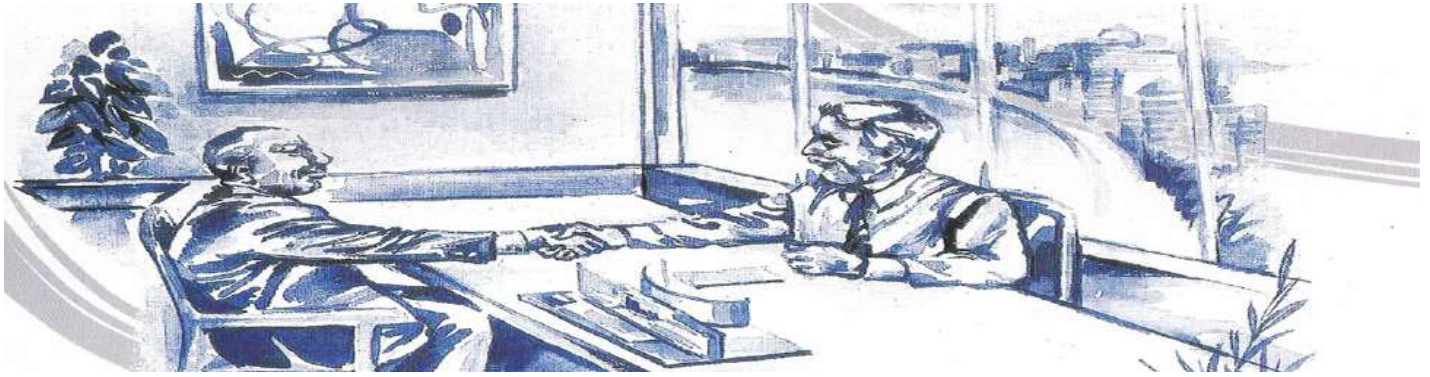
This facility is also applicable on credit card payments where banks have informed their customers about the flexibility to defer the monthly payments until 31 May 2020 however the fine print is that the applicable interest would continue to accrue on the outstanding portion of the of the principal during the outstanding period. No penal interest shall be charged to the borrowers for the above-mentioned period.

It is pertinent to note that there is no blanket waiver that has been granted to the borrowers rather it is a facility that has been offered to the borrowers by the respective lenders though in the current market situation every bank would prefer offering this facility to its customers than affording a default of payment from their customers and then invoking legal action which could be expensive and time consuming.

With respect of working capital loans, the lenders are permitted to defer the recovery of interest applied during the period of 1 March 2020 to 31 May 2020. Such accrued interest shall be recovered immediately after the completion of the above-mentioned period.

Will there be a delinquent reporting against borrowers not paying the EMIs?

The banks have made it clear that non-payment of the EMIs between the period of 1 March 2020 to 31 May 2020 shall not attract any delinquency reporting which essentially means that any non-payment shall not be reported to credit rating agencies which in a normal scenario if reported, would automatically lower the credit rating of the borrower which would then make the credit availing eligibility of the borrower extremely difficult.



How can one avail the benefit on the moratorium?

Some banks for example, SBI, HDFC, ICICI etc have provided an option on their websites for their customers to opt for the moratorium. The default situation is business as usual i.e. the borrower continues to pay the EMIs however, if a borrower wants to opt for the moratorium benefit, he/she shall have to inform the bank accordingly.



What happens if the March instalment has been paid?

Some banks (e.g., SBI) have given an option of refund of the said instalment however there are some banks (e.g. HDFC, Citibank) which will then offer the moratorium for only 2 months.

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