SBI’s Loan Recast Scheme

Why in news?

Banks led by State Bank of India are offering a moratorium of two years to retail investors.

What are the reliefs?

- The relaxations under the framework, subject to compliance of bank norms, include
    1. Moratorium of up to a maximum of 24 months,
    2. Rescheduling of instalments, and
    3. Extension of tenure by a period equivalent to the moratorium granted subject to a maximum of 2 years.
- During moratorium, borrowers don’t have to pay EMIs on the loan.
- Interest will be applied during the moratorium period.
- The moratorium sanctioned under the framework will be in addition to the moratorium granted by the bank earlier.
- If the borrowers have surplus cash during the moratorium, they can pay EMIs during the moratorium.
- This will help in reducing the interest amount.

Will there be any change in EMI after the loan recast?

- The tenure of the loan will be extended by the period of the moratorium i.e 24 months.
- The EMI payable after the moratorium will be recalculated and advised to the customers.

Will there be any change in pricing of the loan?

- Interest will be applied during the two-year period.
- Borrowers should pay additional interest of 0.35% per annum over and above their current pricing for the remaining tenure.
- This is to offset the partial cost of additional provisions required to be made by the bank.

Who is eligible for loan restructuring?

- The main criterion is whether the borrower is impacted by the Covid-19 pandemic.
- A retail borrower will be considered as affected by the Covid-19 pandemic if they fulfil certain conditions laid down by the SBI.
- To be eligible under the recast framework, the following eligibility conditions need to be fulfilled:
    1. The retail loan should be a "standard account" as on the date of application for relief under this framework; and
    2. It should have been "standard" and not in default for more than 30 days as on March 1, 2020.
- The beneficiaries include those who have taken home, education, auto or personal loans under the loan restructuring policy approved by the Reserve Bank of India (RBI).

What is the maximum age up to which the tenure can be extended?

- The SBI says this is product specific.
- In the case of home loan, the tenure of the loan can be extended up to a maximum of 24 months or till the primary borrower attains 77 years of age, whichever is earlier.
- In any case, the tenure can be extended only up to maximum 24 months under this framework for Covid-19 related stress.
- The last date to apply for relief under the framework is December 24, 2020.

Is a borrower eligible for restructuring of multiple loan accounts?

- A person can apply for relief under the framework in more than one account.
- If one of his loan accounts is irregular for more than 30 days as on March 1, 2020, other standard accounts which met the eligibility criteria would be eligible for relief.
- However, the customer's eligibility for a new loan will depend on the prescribed eligibility norms for the respective loan scheme of the bank.

How does retail recast compare with corporate loan recast?

- The retail loan restructuring is on liberal terms when compared to the corporate loan recast plan recommended by the Kamath Committee.
- The RBI has broadly accepted the Committee's recommendation to take into account five specific financial ratios.
- It has also accepted the sector-specific thresholds for each ratio in respect of 26 sectors while finalising the resolution plans.
- The process is complicated as signing of Inter-Creditor Agreement (ICA) is a mandatory for all lending institutions in all cases involving multiple lending

institutions, where the resolution process is invoked.

Source: The Indian Express

