

Arohan Financial Services Limited

COVID-19 Relief Policy 2020

Version 1.1



Prepared by : Risk Management Department
Approved by : Board of Directors
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1. Introduction

COVID-19 is the pandemic caused by a highly contagious human-to-human virus commonly known as corona virus (SAR-COV2). First detected in November-December 2019 in Wuhan, in the Hubei province of China, it propagated rapidly at a mass scale first within China & then across the world starting mid-January 2020. On 30th Jan, 2020, World Health Organization (WHO) declared a Public Health Emergency of International Concern with daily close global monitoring of the outbreak across the world, finally declaring it as a Pandemic on 11th March, 2020.

Countries across the world, including India, have implemented social distancing & drastic measures such as Lockdown, to various extents, as an inevitable step to contain the outbreak of Covid-19. This has resulted in disruptions of economic activity at a massive scale including partial to complete disruption of travels, trades & supply chain and the like, which is expected to result in severe demand declines & deal a severe blow to the world economies.

While many states in India started implementing restrictions at educational institutions, malls, cinema halls, restaurants & other public places from 5th Mar, India’s main action started with ‘public curfew’ on 22nd Mar declared by the prime minister followed by 21 days of Nationwide Lockdown from 24th Mar, 2020. Further, in response to evolving covid-19 situation, Lockdown has been extended in three phases – Phase 2: 15 April 2020 – 3 May 2020 (19 days), Phase 3: 4 May 2020 – 17 May 2020 (14 days) and Phase 4: 18 May – ongoing (10 days). In all the phases, restrictions on activities and movements have been relaxed in a staggered manner with classification of Green, Amber and Red zones. In phase 4, two more zone classifications have been added – containment and buffer.

To address the developing economic circumstances, the Reserve Bank of India (RBI), through a notification titled COVID-19 Regulatory Package, **the Statement of Development and Regulatory Policies released on March 27, 2020**, where inter alia certain regulatory measures were announced 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. On the backdrop of extension of the lockdown and continuing disruptions on account of Covid-19, RBI has decided to permit lending institutions to further extend the moratorium on term loan disbursements by another three months, i.e. from June 1, 2020 to August 31, 2020 (Moratorium 2.0) through a notification on **Statement of Development and Regulatory Policies released on May 22, 2020**.

At an entity level, these measures are subject to due approval from the Board of Directors of the RBI licensed entities.

This policy seeks to obtain approvals from the Board of Directors of Arohan, on full operational empowerment & measures for the management to act upon, which are in line with and within the dispensations allowed by RBI, through the COVID-19 Regulatory Package of 27th Mar, 2020 and of 22nd May 2020. Further, in view of the evolving changes expected through Regulatory notification in the future, this policy also seeks to delegate the authority to grant moratorium and such other decisions to the Executive Committee (EXCOM) of Arohan in future subject to post facto Board ratification following any such developments.

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2. Scope

Arohan offers broadly four types of fixed tenure loan products to its approved customer segment as detailed in clause 3 hereinafter. The RBI notification applies to all the loans products of Arohan.

On the Asset side the notification will mostly affect loan accounts with respect to

- Loan EMI Due Dates
- Days-Past-Due (DPD) tagging of all the loans outstanding as on 1st Mar, 2020
- Loan maturity dates’ extensions
- Repayment delays & re-schedulements
- Implementation & Communication to the borrowers
- To enable Management to give clear directions to employees at all levels for its implementation.
- Overall management of customers & their loan accounts and any other Operational empowerment required by the management in light of the developing scenarios.

On the Liability & funding side, key strategic decisions will have to be taken especially with respect to servicing of On books borrowings as well as Assignment & Securitisation transactions & any other Operational empowerment required by the management, incidental and ancillary to give effect to the said RBI circular in light of the developing scenarios. Similar request for moratorium will be made by the Company to its Banks and other Lenders.

3. Loan Products

Approved Loan products of Arohan are defined hereinafter. Variant products are defined as products with product constructs conforming to the respective parent loan product features and contain the name of the parent loan product(s) along with relevant explanatory suffixes/phrases as defined in the Credit Risk management policy. All loan products’ portfolio sourcing and collections are undertaken directly by Arohan employees as well as through partner institutions.

Arohan’s Loan products (& it’s variants) under the purview of the Board Approved Credit policies can be broadly categorised under the following four (4) categories from the point of view of approved customer segments.

1. **Microfinance Loan products**, under Direct sourcing as well under Sourcing & Collection (S&C) model through Arohan’s alliances partners. These will include Saral & variants, Premium, Cross sell, Sanitation loans, Non Qualifying loans etc.
2. **Bazaar Loans** to micro traders like grocery shops, vegetables & meat vendors etc.
3. Loans to **Micro, Small & Medium Enterprises (MSME)** to small time traders & dealers, wholesalers, retailers, restaurants, medicine shops etc
4. **Term Loan** facilities to other NBFCs / microfinance institutions undertaking microfinance lending businesses.

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4. RBI Notification – Key Points

Under clause 5 of Press Release on “Statement on Development and Regulatory Policies” released on 27th March, 2020, RBI has noted that:

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 institutions”) are being permitted to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 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.**

Under section 6 of Press Release on “Statement on Development and Regulatory Policies” released on 22nd May, 2020, RBI has noted that:

On March 27, 2020, the RBI permitted 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) (referred to hereafter as “lending institutions”) to allow a moratorium of three months on payment of instalments in respect of all term loans outstanding as on March 1, 2020. In view of the extension of the lockdown and continuing disruptions on account of COVID-19, it has been decided to permit lending institutions to extend the moratorium on term loan instalments by another three months, i.e., from June 1, 2020 to August 31, 2020. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans, may be shifted across the board by another three months.

The notification thereby allows Arohan to grant up to six (6) months of moratorium to its borrowers as well as avail the same facility from its lenders on loans for all due dates falling between 1st March and 31st August 2020.

5. Applicability

Asset Side: Arohan may apply the relaxation to its borrowers across the loans product offerings as detailed in Section 3.

The following policy will be applicable to all the loan categories.

- For the loans in which Arohan’s customers will avail the moratorium, interest shall accrue at the contractual interest rate during the moratorium period. The residual tenor of such loans shall be extended by up to 6 months.

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- Interest accrual for up to six months of moratorium period may be appropriately adjusted throughout the remaining loan tenure OR over the extended loan tenures OR at the last EMI for the Microfinance and Bazar loans. The EMI recalibration for MSME and Term Loans, in line with the above, subject to mutual agreement with the customers availing of the flexibility or the customers availing moratorium may be provided with revised repayment schedule factoring in the accrued interest. Also, such interest accruals for all the above mentioned business segments, may be appropriately capitalized backed by necessary loan documentation which will be executed for a revised loan repayment schedule in such a case interest capitalization to arrive at the New/Revised loan amount & extended repayment tenure not exceeding the number of months of moratorium availed.
- Rescheduling of payment including interest will not qualify as a default for purpose of supervisory reporting and reporting to Credit Bureau
- Days Past Due (DPD) status and reporting to Credit Bureaus between 1st March 2020 and 31st August, 2020 will not change with effect from 1st Mar 2020. However, due to EMI repayments post 1st March 2020, if there is a reduction of DPD days, the same will be recorded & reported.

5.1 Asset Side - Loan Category Specific Likely Impact & Policy

- **Microfinance Loans & Bazaar Loans:**

Most of such customers depend upon daily incomes from businesses & family job works, which have all been adversely impacted due to the lockdowns and disruption in economic activity being at the lowest end of the retail lending spectrum.

Actionable & Approvals: All the MFI loan accounts with one or more due dates falling between 1st March 2020 and 31st August 2020 will be allowed up to a six-months moratorium. For microfinance loans, Arohan will abide by the MFIN & CRL Steering Committee directions being a signatory to them.

These directions are likely to be in the lines of extension of full benefits to the end clients given their vulnerability and time required to get their livelihood back on track.

- **MSME Loans:** Small businesses except under the essential commodities such as medicines, cooking gas etc. have all been impacted by the disruption & decline of economic activity.

Actionable & Approvals: the MSME loan accounts with one or more due dates falling between 1st March 2020 and 31st August 2020 will be allowed up to six-months moratorium. The list of customers provided moratorium will be as per the joint approval from the MSME Business head & the MSME Head of Credit. However, we will make maximum efforts to allow availing of the said moratorium post a telephonic confirmation and / or a written request by way of a letter or e-mail from the customers.

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- **Term Loans:** All alliances partners of Arohan mainly cater to the same microfinance customer segment mentioned above and are hence facing the same challenges being faced by Arohan.

Actionable & Approvals: All the Term Loan loans accounts with one or more due dates falling between 1st March 2020 and 31st August 2020 will be allowed up to a six-months moratorium **subject to an approval from the Credit Committee.** Term Loan customers will provide written requests for availing of the said moratorium post a telephonic confirmation from the customer.

It is implied that customers, of all the above loan categories, who will Not avail the said moratorium OR repay their loan before the said up to 6 months’ extension of tenure will get the benefit of the reduced interest accrual for up to six months as the case will be for the respective customers.

The Management, through the EXCOM, will take appropriate decisions and action upon them in light of the above and such other situation(s) in the business.

5.2 Liability & Funding Side

On Books Borrowing: Arohan will make an application to the lenders to provide up to 6 months of moratorium for the payment dues between the period 1st March, 2020 to 31 August, 2020 as the Company has extended the same facility to its clients.

Assignment Transactions

We need to approach the assignee (Lenders) to seek permission to provide moratorium to the customers forming part of such transaction. As in such assignment transactions the assignee (Investors) holds 90% share, and the Arohan has only 10% retained interest.

Securitization Transactions

In case of Securitization transaction, we will approach the Trustees and the Pass Through Certificate (PTC) holders to seek approval to provide moratorium to the customers forming part of such pool. For transaction where the clean-up call is exercised, Arohan will provide them up to 6 months of moratorium.

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