

# **Loan moratorium: SC directs blanket interest waivers for 8 loan categories**

*The RBI had permitted all banks to allow a moratorium of six months, from March 1, 2020 to August 31, 2020. This applied to all term-loans. Given that the worst of times may not be over for many borrowers, many are in favour of extending the moratorium till December 31, 2020. The Supreme Court has extended the interim order on the moratorium till October 5, 2020.*

In the wake of the COVID-19 or the Novel Coronavirus outbreak and the financial jolt that it may have caused for many, the Reserve Bank of India (RBI), in an attempt to provide some relief to those struggling with liquidity, announced some relief, on March 27, 2020, in the form of a moratorium on term loans for three months, ending on May 31, 2020. On May 22, the RBI extended this moratorium further by another three months, up to August 31, 2020.

## **] Did the RBI's EMI moratorium work for Indians?**

Banking industry leaders are of the opinion that the moratorium relief can now be called off, because the economy has shown signs of recovery. Many may also be in a position to repay their debts. In the annual report of the RBI that was released on August 25, 2020, it notes, "Regulatory dispensations that the pandemic has necessitated, in terms of the moratorium on loan instalments, deferment of interest payments and restructuring, may also have implications for the financial health of banks, unless they are closely monitored and judiciously used."

Further, it reads, "Macro stress tests reported in the July 2020 Financial Stability Report, suggest that non-performing assets may surge by 1.5 times above their March 2020 levels under the baseline scenario and by 1.7 times in a very severely stressed scenario. The system-level CRAR can drop to 13.3% in March 2021 from its March 2020 level under the baseline scenario and to 11.8% under the very severe stress scenario."

RBI deems it fit that a recapitalisation plan for public and private sector banks is very important at the moment. The RBI has gone ahead and advised NBFCs to carry out COVID-19 stress tests and take necessary remedial measures. Meanwhile, Japanese brokerage firm Nomura has said that no quarter would see positive growth in the ongoing fiscal.

## **The moratorium came as a relief for many**

It is important to note that for many borrowers, the moratorium spelt relief. A study by NBFC Finway suggested the following:

- Pan-India, 45% of the borrowers availed of the moratorium.
- Most of the borrowers were middle-aged, employed or in business.
- Most of them were concentrated in the Delhi-NCR region.
- Borrowers are now reluctant to take loans and are trying to minimise expenses.
- Borrowers have been asking for lower interest rates.

A recent research showed that 45% of Indian borrowers availed of this temporary financial relief and given that the COVID-19 virus is still looming large, many borrowers remain in a difficult financial situation. Consequently, many have been asking for a further extension of the moratorium facility, till December 31, 2020.

### **Timeline of decisions on loan moratorium by SC**

On August 26, 2020, a SC bench led by justice Ashok Bhushan, directed the centre to clarify its stance on the matter of waiving interest. Lawyer Vishal Tiwari had moved the apex court in this regard, citing that the ailing industries needed more time to emerge from the financial stress and hence, the SC should consider extension of the moratorium period till December 31, 2020. This applies to the payment of monthly installments of all term loans outstanding as on March 1, 2020. This applies to home loans, as well.

On September 1, 2020, the apex court directed banks to avoid classifying loans as non-performing assets, if these were standard loans and were not overdue by over 30 days as on March 1, 2020. This may be a breather for hard-pressed borrowers over the next two months, until the SC takes a decision. Further, a loan restructuring facility may be extended to those borrowers who were severely hit by the pandemic. On the other hand, it may disturb the health of the banks, as estimates show that the bad loans of banks reached a whopping Rs 8.42 trillion as on June 30, 2020.

On September 10, 2020 the SC said that it will hear the matter and pronounce an interim order. In the absence of a concrete reply from the centre and the RBI, the top court deferred its judgement. The apex court had also asked the centre, the RBI and banks, to file a definitive reply on their point of view, on waiving of interest charged during the moratorium period, keeping in view the KV Kamath Committee's recommendations.

On October 5, 2020, the centre in its affidavit said that small borrowers, who took loans of up to Rs 2 crores, would get relief from the payment of compound interests during the six-month moratorium period but this would not apply to loans above Rs 2 crores.

However, the centre's response was not sector-specific. For example, the industry body, Confederation of Real Estate Developers' Associations of India (CREDAI) that represents about 12,000 promoters across the country, noted that there wasn't any relief provided to them in the form of loan restructuring.

On October 14, 2020, the RBI told the top court that the centre has agreed to waive compound interest charged on loans of up to Rs 2 crores for the six-month moratorium period. The SC directed the centre to go ahead with the plan but also come back with an 'appropriate action plan', on November 2.

Starting November, the following discussions came to the fore.

### **Coronavirus and impact on credit score**

Credit scores of many have been affected and this would be a pain point, not just for the person in question but the banks as well, since recovery has become tougher. Further interest waivers may be important at this stage.

## **Additional liquidity looks necessary**

Kapil Sibal, on behalf of CREDAI Mumbai, has said that the moratorium should be extended to the end of the financial year 2021. Not just that, an emergency credit line plus additional liquidity needs to be pumped.

## **Banks are helpless**

Advocate Harish Salve, on behalf of the Indian Banks Association, has said that the SC had passed orders restraining banks from classifying the accounts as NPAs. This has crippled banks, leaving them helpless to take action against defaulters.

In this scenario, it would be pertinent to understand the concept of a moratorium and its impact.

## **Blanket interest waiver on specific loan categories**

On the basis of various hearings, the SC has directed the Modi government to waive interest on eight categories of loans paid upto Rs 2 crores, in view of the Coronavirus pandemic. The eight categories of loans include MSME (micro, small and medium enterprises), education, housing, consumer durables, credit cards, automobiles, personal and consumption.

“For several months, a large number of industries were not allowed to function and exemptions were granted only to few of the industries to run and carry on its activities, which were found essential and necessary in the situation,” the bench said.

However, if a blanket waiver be indeed given, authorities explained that the amount would be Rs 6 lakh crores and this may hamper the economic growth.

## **What is a moratorium?**

A moratorium is the act of postponing or deferring an activity and should not be confused with a waiver. Here are some frequently asked questions to understand moratorium, its benefits and implications:

### **Impact on borrowers**

#### **1. What does a 6-month moratorium on repayment mean, for home loan borrowers?**

A six-month moratorium allows you to [defer your EMI payments by a period of three months](#). This should not be mistaken for a total waiver. If your instalments were due between March 1, 2020 and August 31, 2020, the RBI has now permitted your bank to allow you to postpone the repayment. However, your bank is not obliged to do so. It may or may not allow it, or different banks may have their own criteria for establishing who should be allowed an EMI holiday for these six months. However, banks that were already allowing the initial three-month moratorium may continue to do so.

#### **2. Will I have to pay extra as interest, if I choose the moratorium?**

Yes, you will be paying more as interest, if you choose to avail of the moratorium. Let us see how that works.

Suppose you had taken a [home loan](#) of Rs 70 lakhs at 9% interest for a period of 20 years from Allahabad Bank. The monthly installment in this case comes to Rs 64,400. In case you choose to take the moratorium for three months, the interest will continue to accrue which comes to Rs 1,58,684. This will be added to your overall liability.

Hence,

**Principal:** Rs 70,00,000

**Interest Payable:** Rs 82,99,365

**Interest for moratorium period:** Rs 1,58,684

**Total amount payable:** Rs 1,54,58,049

**Total amount payable if moratorium not availed:** Rs 1,51,15,396

While you will be paying a higher amount when you repay the EMIs, the moratorium on housing EMIs will help you rearrange your finances in the short-term. On the other hand, if you do not opt for the moratorium, you would end up saving Rs 3,42,653.

### **3. Will moratorium be applicable on principal repayment, interest repayment or both?**

The moratorium will be applicable to both principal and interest, that is wherever you are paying either EMIs or Pre EMIs. The interest, at the applicable interest rate, shall keep on accruing on the outstanding portion of the loan during the moratorium period.

### **4. Will opting for the moratorium affect my credit score?**

No, the advantage of seeking this moratorium is that it will not show up as a default in your credit score. Further clarifications are awaited from financial institutions.

### **5. Is there any penalty that will be charged**

No, neither will there be any penalty charged nor will your credit score be compromised during this tenure.

### **6. What if I have multiple loans running?**

The moratorium facility will be extended to all your term loans. However, you must check with your respective banks, whether they would want you to opt-in or opt-out of this facility.

### **7. What will be the effect of a 6-month moratorium on the self-employed?**

In light of the example given above, you could say that the extra interest accrued is a small price to pay, given that some self-employed borrowers may find it tough to repay, with most businesses suffering losses due to the lockdown. In the six months, a self-employed businessman/woman can divert this EMI amount and use it elsewhere. Hence, there is no

immediate worry of losing out on one's liquidity. After a period of three months, the borrower can go back to paying his monthly dues with the knowledge that he/she will be now repaying a higher amount.

**8. What will be the impact of a 6-month moratorium on new borrowers?**

It will have the same effect, as on any other section. You will be able to defer your payments by three months. However, you should know that since it is not an interest waiver, you are not getting any discount. If you have the financial appetite to keep repaying, you must do so. This will help you save some money. However, if you are suffering because COVID-19 has taken a toll on your finances, you should go ahead and avail of the moratorium, if your bank is offering the same.

**Guidelines by banks and financial lenders**

**9. Is the moratorium meant for only nationalised banks, or all banks in general, including co-operative banks?**

All lending institutions that is 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, have been permitted to allow the moratorium.

**10. Is this a loan waiver (for three months) or a deferment?**

Note that the RBI has only agreed for a deferment of the term loan. There is no waiver or discount or concession. Deferment also accrues charges.

**11. What if I have already paid my EMI for the month of March 2020?**

Most borrowers give the Electronic Clearing Service (ECS) mandate for the first week of a month. Therefore, for many an EMI that was due in March, would already have been paid. For such borrowers, EMIs can be deferred by two months only – that is, for April and May, 2020 (in case of three-month moratorium).

**12. What if my EMI was due on March 28, 2020?**

You may want to check with your respective bank about refunds. For example, ICICI Bank has said that it may consider refunding EMI for March if it was debited post March 27, 2020. ICICI Bank guidelines read as follows, "EMI paid prior to Mar 27, 2020 will not be refunded. However, if any EMI is debited after Mar 27, 2020 and the borrower customer opts for moratorium then such EMI may be considered for refund at the request of the borrower/customer."

**13. Is moratorium facility available for NRI borrowers?**

Yes, the moratorium facility is applicable for NRI customers as well.

**14. Will the banks automatically apply the moratorium, or does the borrower have to approach the bank?**

Individual banks will come up with their own criteria. Experts opine that since the RBI has used the word ‘permitted’ and not directed, most people may have to request their banks to grant them the moratorium. State Bank of India however has already allowed all borrowers to avail of the moratorium, irrespective of whether they need it or not. There is clarity awaited from other banks. RBI has asked banks to prepare policies approved by their board to provide relief to all eligible borrowers.

**15. Is the moratorium applicable to individuals, or corporates too?**

As per the RBI, the moratorium is permitted for all but banks can come up with their own parameters of determining eligibility. This confirmation and set of guidelines is awaited from various banks and we will update this article accordingly.

**16. Does it apply to those who are getting full salary during the lockdown period?**

The economic impact of the COVID-19 may apply to all – both, salaried, as well as the self-employed. For the salaried, the economic impact may be in the form of pay-cuts, delay in salary payments or even layoffs. Therefore, the RBI has taken this step in anticipation, to ease the financial stress of many. More details are awaited from the individual banks. Eligibility criteria will be announced soon.

**17. What can I do if my bank does not offer a moratorium?**

As already stated, it is totally up to the banks to offer the moratorium to you. In RBI’s words, “Lending institutions shall frame board-approved policies for providing relief to all eligible borrowers, inter alia, including the objective criteria for considering reliefs and disclosed in public domain.” Note the word ‘objective’. It is not on a subjective basis but on objective grounds that your bank will establish a criteria to roll out this moratorium.

If the bank doesn’t offer this relief, you may run the risk of losing your property, if you do not pay your EMIs.

**Commonly asked questions**

**18. Is the home loan moratorium a new concept?**

Moratorium is not a new concept. Most borrowers who buy an under-construction property ask for a moratorium period. Agreeable banks usually offer up to three years of moratorium. However, in such cases, banks generally insist that the borrower pay the interest during the moratorium period, also called pre-EMI interest. After a period of three years, the full EMI is paid by the borrower. In the case of a ready-to-move-in property, banks typically give a moratorium of three to six months.

**19. How will lending institutions benefit with this move?**

Note that lending institutions are not waiving the EMI or the interest. They are simply allowing you to defer your payment for which interest is applicable and accruing. Lenders will profit from this interest. Take for example, SBI's term loan book which is big. The bank's chairman Rajnish Kumar has said that the moratorium move will bring in more. Talking to the media, he said, "Our term loan book is fairly large and I think Rs 2-2.5 trillion gets paid every year, so for three months it would be Rs 50,000-60,000 crores."

## **20. What are some of the other term loans?**

Term loans are secured loans (at times unsecured) and the borrower must repay the loan with interest, within a definite and specified period of time. Some examples are agricultural term loans, retail loans, crop loans, vehicle loans, education loans, personal loans, etc.

### **Housing recommends**

Please note that if you opt for the moratorium, interest will continue to accrue. Here's an example to help you.

Dev Sharma availed of a housing loan on March 1, 2020 amounting to Rs 1 crore with loan tenure of 236 months. If Sharma wants to avail of a moratorium on the instalment of Rs 90,521.00 which is due on April 1, 2020, then, the interest for the month of March amounting to Rs 75,000 will be added to the principal amount and the revised opening principal amount on April 1, 2020 will become Rs 10,075,000. The interest will be computed on the revised principal. Similarly, the interest for the month of April which is payable on May 1, 2020 of Rs 75,562 will be added to the opening principal on May 01, 2020, which will be Rs 10,150,562. The interest will be computed on the revised principal. In this case, Sharma's tenure will increase from 236 months to 249 months, considering the unchanged rate of interest and instalment amount during this period.

Hence, if you are not financially stressed at this point of time, go ahead and pay your EMIs. This will save you some money.

### **Important conditions, to avail of the loan restructuring**

Both, corporate and retail borrowers, will not be pulled up for defaults for the time being. The option of loan structuring is being offered to those who have been genuinely hit. Note the following:

- If you plan to avail of the restructuring facility, be ready with concrete proof, such as letter of termination or salary cuts from your office, or your accounts of losses incurred in business, etc.
- The restructuring will be provided to only those, whose debts were not overdue by over a month as on March 1, 2020.  
If you did not avail of the moratorium, you may still be able to restructure your loan.
- Restructuring does not affect your credit score, although it will be reported to the credit bureaus.

<b>Particular</b>	<b>Course of action</b>
Customer who do not want to defer recovery of instalments /EMI	No action is required. They may continue to pay in the usual course.
Customer who wants to defer recovery of instalments/EMI	NACH – Where collections of such instalment / EMI is effected through National Automated Clearing House (NACH), please submit an Application (Annexure-I) along with mandate for NACH Extension-(Annexure-II) to stop NACH for these instalments through an e-mail to the specified email ID (Annexure-III).  Standing Instructions (SI) – Please submit an Application (Annexure-I) through an email to the specified email ID (Annexure-III).
Customers who want refund of the instalment/EMI already paid	Please submit an Application (Annexure-I) through an email to the specified mail ID (Annexure-III)

### **Bank rules for availing moratorium**

Most banks have taken to Twitter to announce their guidelines about the moratorium period.

#### **[State Bank of India](#)**

For details, visit <https://www.sbi.co.in/stopemi>

#### **Punjab and Sind Bank**

##### **Moratorium on All Term Loans**

Bank shall grant a moratorium of three months on payment of instalments (including principal, interest, bullet repayment, EMI) falling due between March 1, 2020 and May 31, 2020 in respect of all term loans. 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. Standing Instructions (SIM) will be deferred by the Bank upto May 31, 2020. However, if the borrower is willing to pay the installment, the same to be recovered.

For more details, visit: <https://www.psbindia.com/document/Advisory.pdf>



## IDBI Bank

<b>Particular</b>	<b>Course of action</b>
Customer who wants to defer recovery of instalments/EMI	The scheme will be applicable to all standard term loans under Housing Loan, Loan against Property, Auto Loan, Education Loan & Personal Loan as on March 1, 2020. Wherever the March 2020 instalment has already been paid by the borrower, the relief would be applicable for the EMI payable in April 2020 and May 2020.
Customer who do not want to defer recovery of instalments /EMI	Customer may opt out from EMI moratorium by writing email to moratorium@idbi.co.in latest by April 3, 2020.  The E-mail should mention the following details Email Subject should be Loan Account number In the mail body please mention the following details Name of the borrower. Loan account number.  Customer to mention in the email that “I wish to opt out from the instalment moratorium facility offered by the bank, hence kindly deposit my EMI by way of ECS/SI”

For more details, visit: <https://www.idbibank.in/faq-covid-installment.asp>

## HDFC Bank

<b>Particulars</b>	<b>Course of action</b>
Customer who wants to defer recovery of instalments/EMI	All HDFC Bank customers who have availed of retail instalment loan or any other retail credit facilities prior to 1st March 2020 are eligible.  Customers having overdues prior to 1st March 2020 may also opt for the moratorium, and their requests shall be considered by the bank based on its merits.  Call on this number and follow the instructions – 022-50042333, 022-50042211
Customer who do not want to defer	If you do not want the EMI moratorium, no further action is required from

recovery of instalments /EMI

your side.

For more details, visit: <https://www.hdfcbank.com/personal/pay/payment-solutions/loan-repayment>

<b>Particulars</b>	<b>Course of action</b>
Customer who wants to defer recovery of instalments/EMI	In respect of all other types of facilities, borrower(s)/customer(s) will need to specifically OPT-IN for availing of Moratorium and postponement of payments falling due for payment between the period beginning Mar 01 until May 31, 2020. You can go <a href="#">here</a> to Opt-in.
Customers who do want to defer recovery of instalments/EMI	Those who do not wish to avail of the Moratorium, borrower(s) / customer(s) may OPT-OUT from the Moratorium by clicking on the link shared with the borrower(s) / customer(s) by the Bank through (i) SMS or (ii) e-mail. You may also visit ICICI Bank's website <a href="http://www.icicibank.com">www.icicibank.com</a> failing which it will be deemed that borrower/ customer has opted for Moratorium.

### **ICICI Bank**

All the other banks have also allowed the moratorium which includes Canara Bank, Andhra Bank, UCO Bank, Indian Bank, Syndicate Bank, Indian Overseas Bank, Bank of Baroda, Central Bank of India, Oriental Bank of Commerce, Punjab National Bank, Bank of India, Allahabad Bank, Union Bank of India, Corporation Bank.