

RBI allows one-time restructuring of MSME loans

Reserve Bank of India kept the policy repo rate unchanged at 4% at its bi-monthly monetary policy meeting on August 6, 2020. However, the central bank announced a one-time restructuring of loans of MSMEs that are facing cash flow constraints amidst the COVID pandemic. One-time restructuring was widely demanded by the industry instead of another extension of the already announced moratorium, which was not exercised by many borrowers.

In its monetary policy statement, RBI acknowledged that the stress in the MSME sector has got accentuated amidst the prolonged COVID crisis and this has warranted policy support. Consequently, RBI allowed restructuring the debts of stressed MSME borrowers as long as their accounts are classified as standard as on March 1, 2020. This restructuring will have to be implemented by March 31, 2021.

In view of the concerns emanating from use of multiple operating accounts by borrowers, both current accounts as well as cash credit (CC)/overdraft (OD) accounts, it has been decided to put in place certain safeguards for opening of such accounts for borrowers availing credit facilities from multiple banks.

MSMEs that have borrowed from commercial banks, cooperative banks, NBFCs and All India Financial Institutions are eligible for this restructuring subject to the following conditions:

The total loan amount of the borrower, including non-fund based facilities, should be less than or equal to Rs. 25 crore as on March 1, 2020.

The borrower's account should be a 'standard asset' as on March 1, 2020.

The bank should implement the restructuring by March 31, 2021.

The borrower should be registered with the GST on the date of implementation of the restructuring. However, this condition will not apply to MSMEs that are exempt from GST-registration. This shall be determined on the basis of exemption limit obtaining as on March 1, 2020.

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