

# Aga Khan Economic Planning Board for India

## **RBI Moratorium Update**

With regards to the relief measures announced by the Government on account of COVID-19, last week RBI allowed all lending institutions to offer a 3 month moratorium to borrowers on payment of EMIs

Here are some of the key questions answered regarding the 3 month moratorium benefit

### **1. What does moratorium on loan mean?**

Moratorium period refers to the period of time during which you do not have to pay an EMI on the loan taken. **It does not mean waiver of EMI, it just refers to deferment in payment of EMI for a particular period.**

### **2. What is the moratorium period that is offered?**

The 3 month moratorium is for payment of all instalments falling due between March 1, 2020 and May 31, 2020.

### **3. Which are the loan facilities eligible for availing the moratorium benefits?**

All Term Loans - Agricultural Term Loans, Retail, Crop Loans and loans under Pool Purchases (microfinance) and Cash Credit/Overdraft are eligible to avail the moratorium benefits.

### **4. Which accounts are eligible for availing the moratorium benefits?**

This is available to all such accounts which are Standard Assets as on 1st March 2020 (not applicable for accounts which are already categorised as Non-Performing Assets)

### **5. How can I opt for the moratorium?**

You can opt for the moratorium by reaching out to your bank's relationship manager, customer care department or by visiting the bank's website.

### **6. Will my Credit Rating/CIBIL score get affected, if I opt for the moratorium?**

No, your Credit Rating and CIBIL score will not get affected if you opt for the moratorium.

### **7. How does this moratorium work on a term loan?**

The customer will not have to pay any EMI which is due in the months of March, April and May 2020. However interest will continue to accrue on the outstanding amount for the 3 months

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### **8. Will I have to pay extra interest if I avail this moratorium benefit?**

The interest amount which is deferred for 3 months gets added to the outstanding loan amount which in turn increases your EMI or loan tenure after the moratorium period

**Example:** Let's say you have a home loan with a 15 year tenure which has an principal amount of Rs 50 lacs and the interest rate is 9% p.a. Your EMI payable is Rs.50,713. At the end of 3 months, the interest for the 3 months will be added to your loan amount. In this example, the interest will be Rs 1.13 lacs for the 3 months. Therefore, the loan outstanding at the end of 3 months will become Rs 51.13 lacs

Keeping with the same example, the bank will offer the customer two options

*Option 1 - Keeping The Same Loan Tenure:* By keeping the remaining tenure same at 180 months, your EMI will increase to Rs 51,862 after the moratorium period. An increase of about Rs 1,150 per month. Over the course of 180 months, this will amount to Rs 2.07 lacs extra.

*Option 2 – Keeping The Same EMI:* If you keep the EMI same and change the tenure, you will have to pay 189 EMIs. That's an increase of 9 EMIs over the original tenure. So by not paying the 3 EMIs you must pay 9 more later. Please note that these 9 EMIs are over and above the 3 EMIs that you won't pay now but pay later.

For customers with longer remaining loan tenures, (i.e recently taken loans) the impact would be bigger. This is because the interest forms a larger portion of the EMI in the early years and progressively comes down.

Options available to customers on accrued interest payment may change per bank, therefore customers are advised to get in touch with their banks to get additional clarity

### **9. How does this moratorium work on a working capital loan?**

The customer will not have to pay interest on cash credit/overdraft facilities as of 31st March, 30th April and 31st May 2020. However the entire interest amount which is deferred will have to be paid together on 30th June 2020 or whenever the interest date is due

**Conclusion:** As explained earlier, moratorium is not a waiver of any kind. So your interest will continue to accrue for the time period of the moratorium. The interest due during the period of moratorium will also get added to your outstanding amount and therefore will increase your burden when the moratorium gets over. Therefore you should opt for it only if you are facing a liquidity crisis (such as cash flow losses, job loss, salary cut, etc.) else it will be better if you continue paying your EMIs regularly

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## FAQS

Here are questions on RBI decision related to personal loan / EMI / credit card bills answered.

### **Q: My EMI is due soon. Will the payment not be deducted from my account?**

A: The RBI has only allowed banks to allow a moratorium. Individual banks will have to allow suspension of EMIs. The borrower will have to request the bank and show that his or her income has been impacted by the coronavirus disruption. This means that unless you have specific approval from your bank, your EMIs will still be deducted from your account.

### **Q. Is this a waiver of EMIs or a deferment of EMIs?**

A: This is not a waiver, but a deferment. You will have to pay the EMIs at a later as decided by the bank. The RBI has told banks to have board approved policies in place on moratorium/deferment.

### **Q: Does the moratorium cover both principal and interest?**

A: Yes. It does. If announced by your bank, you can forego payment of your entire EMI, including payment and interest.

### **Q. What kind of loans does the moratorium cover?**

A: The RBI policy statement explicitly mentions term loans, which includes home loans, personal loans, education loans, auto and any loans which have a fixed tenure. The also include consumer durable loans, such as EMIs on mobiles, fridge, TV etc

### **Q: Does the moratorium cover credit card payments?**

A: Since credit cards are defined as revolving credit and not term loans, they are not covered under the moratorium.

### **Q: I have taken a business loan. Can I not pay my EMI?**

A: The moratorium has been allowed on retail loans

If you have any queries, you can reach out to AKEPB at [india.soe@gmail.com](mailto:india.soe@gmail.com)