Policy on Co-Lending Model (CLM)

Table of Contents

1. **Scope**

RBI vide circular RBI/2020-21/63FIDD. CO.Plan.BC.No.8/04.09.01/2020-21 dated November 5, 2020 revised the norms on co-origination of loans by banks and NBFCs (including HFCs) for lending to priority sector. It was further clarified by RBI that the co-origination arrangement may be adopted for lending to non-priority sector also. However, the arrangement for lending to non-priority sector shall be restricted to Regulatory Retail portfolio, retail loans such as personal loans, housing loans, loan against property, gold loan etc. and business loans up to ₹7.5 Cr.

This policy on Co-Lending Model (CLM) is formulated in tune with RBI guidelines.

Bank may engage with registered NBFCs for Co-Lending based on a Master Agreement executed between Bank and NBFC.

The term NBFC mentioned in the policy includes HFC too.

Bank shall ensure the following while opting the Co-Lending Model:

2. **Eligibility Criteria for selection of partner institutions**

Bank may enter into Co-Lending arrangement with NBFCs that meet the following eligibility criteria.

a) The NBFC shall be a registered entity with RBI.
b) The selected NBFC shall have a Board approved policy for tie ups with banks for co-lending arrangement.
c) As per latest reported financials, GNPA of the NBFC, at an overall level and / or portfolio level (with respect to which co-lending is proposed), shall not exceed 4.5%.
d) The registered NBFC shall maintain at least minimum regulatory capital.
e) The external rating shall be BBB- or better.
f) The NBFC shall have an experience of 3 years, in the sector.
g) Bank shall not enter into Co-Lending arrangement with an NBFC belonging to Bank's own group.

Bank may explore tie ups with NBFCs to improve the flow of credit to the unserved and underserved sector of the economy including MFI/ SME lending. NBFCs concentrating in such segments may be employing technology/ dominance in the geography for catering to such demands. Fixing a uniform threshold may prevent Bank from exploring such opportunities. To achieve the envisaged objective of extending credit to unserved and underserved segments and to capture the business opportunities that may arise from tie ups with NBFCs adopting innovative technology solutions / digital lending initiatives/ NBFCs having strong regional presence etc., MD & CEO Committee, on a case to case basis, may relax the conditions specified in (e) and (f) above. MD & CEO Committee shall take appropriate decision, after analyzing the business model, overall risk involved in the proposal etc. and may specify the exposure ceiling and stress level in respect of each arrangement.

3. **Nature of loans sourced under the Co-lending arrangement**

Co-lending Model shall be adopted by Bank for the co-origination of priority sector loans and non-priority loans, as mentioned in Para 1.

Bank shall claim priority sector status in respect of Bank's share of credit extended to priority sector through this arrangement.

4. Types of arrangements

Bank may enter into co-origination arrangement with an NBFC in any of the following ways:

i. By mandatorily taking Bank's share of the individual loans as originated by the NBFC.

ii. Retain the discretion to reject certain loans subject to bank's due diligence.

a. Mandatorily taking Bank's share of individual loans originated by NBFC

If the Bank proceeds with a prior, irrevocable commitment on the part of the Bank to take into its books its share of the individual loans originated by the NBFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued by RBI vide RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/ 2014-15 dated March 11, 2015 and updated from time to time. The guidelines pertaining to Outsourcing of Financial Services as specified in Bank's Policy on Outsourcing of Financial Services shall be complied with while entering into an irrevocable commitment with NBFC.

In particular, the Bank along with the NBFC shall put in place suitable mechanisms for ex-ante due diligence by the Bank as the credit sanction process cannot be outsourced under the extant guidelines.

b. Retain the discretion to reject certain loans subject to bank's due diligence

If the Bank decides to exercise its discretion on taking into its books the loans originated by NBFC, the arrangement shall be akin to a direct assignment transaction. Accordingly, the Bank shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued vide RBI/2011-12/540 DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 07, 2012 and RBI//201213/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012 respectively, as updated from time to time, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM. Bank has formulated a Policy on Securitisation Transactions in line with the above said RBI guidelines and it shall be ensured that the loans taken into the books of the Bank shall be in compliance with the policy norms.

To avail the MHP exemption Bank shall ensure that the Master Agreement between Bank and NBFC contains a back-to-back basis clause and that the arrangement complies with all other conditions stipulated in the guidelines for direct assignment.

The credit sanctioning process, within the policy framework, and the type of arrangement with the NBFC shall be covered in the product note formulated by Business Department for each Co-Lending Model.

5. Execution of Master Agreement

Bank shall execute a master agreement with the co-lending partner for entering into the arrangement. The person to execute the agreement on behalf of the Bank shall be approved by the Head of Business Department. The Master agreement shall inter alia include terms and conditions of the arrangement, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues covered in the policy along with other relevant aspects, if any, specific to the arrangement.

The Master Agreement to be executed between the Bank and the co-lending partner shall provide to either mandatorily take our share of the individual loans originated by the NBFCs in our books as per the terms of the agreement, or to retain the discretion to reject certain loans after our due diligence prior to taking in our books, based on the mutual understanding between the Bank and NBFC.

6. **Know Your Customer (KYC) compliance:**

The Bank shall comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No. 81/14.01.001/ 2015-16 dated February 25, 2016 and updated from time to time, which permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions. Bank's Policy on Combating Financial Crimes deals with the conditions for acceptance of KYC due diligence carried out by third parties. KYC norms and due diligence by third parties shall be ensured in compliance with the said policy guidelines.

7. **Sharing of Risks and Rewards**

Bank shall take the share of the individual loans on a back-to-back basis in the books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books and ensure compliance as amended by the regulator from time to time.

8. **Interest Rate**

The borrower shall be charged an all-inclusive interest rate as may be agreed upon by Bank and NBFC conforming to the extant guidelines applicable to both the lenders.

9. **Escrow Account**

Bank and NBFC shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the Bank and NBFC relating to CLM shall be routed through an escrow account maintained with the bank, in order to avoid inter-mingling of funds. The Master Agreement for the arrangement shall invariably specify the manner of appropriation between the co-lenders.

10. **Charge Creation on security and Audit**

The Bank and NBFC shall arrange for creation of security and charge as per mutually agreeable terms.

The loans under the CLM shall be included in the scope of internal/statutory audit within the Banks and NBFC to ensure adherence to respective internal guidelines, terms of the agreement and extant regulatory requirements.

11. **Assignment of Loan**

Any assignment of loan sourced under this arrangement by a co-lender to a third party shall be done only with the consent of other lender.

12. **Customer Support**

The NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of NBFCs and Banks.

The details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.

The NBFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon Bank and NBFC therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

13. Grievance Redressal

With regard to grievance redressal, suitable arrangement must be put in place by Bank and NBFC to resolve any complaint registered by a borrower with the NBFC within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/ Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI. There shall be a proper arrangement for exchange of complaints received at either ends to ensure resolutions within 30 days.

14. Business Continuity Plan

The Master Agreement shall cover details of business continuity plan / measures to ensure uninterrupted service to the borrowers till repayment of the loans under the Co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.

15. Restrictions and Warranties

The Master Agreement shall contain necessary clauses on representations and warranties which the originating NBFC shall be liable for in respect of the share of the loans taken into its books by the Bank.

16. Delegation to approve Co-Lending arrangements

The sourcing arrangements, underwriting practices, segment which the NBFC concentrates/ Bank prefers, collection mechanism etc. may vary among NBFCs.

Due diligence shall be conducted by the Business Department. Various risk aspects with respect to integrity/ credit worthiness of the promoters of NBFC, sourcing practices, credit appraisal norms, data exchange between Bank and NBFC, safe custody of documents/ title deeds, monitoring and collections, fraud reporting, support for rectification of audit comments etc., shall be thoroughly assessed with the involvement of related stake holders and shall be covered in the product note. Bank shall peruse the Board approved policy of the NBFC to ensure that the proposed arrangement is in compliance with the policy norms.

In tune with the terms of arrangement, Business department shall formulate a Standard Operating Procedure (SOP), covering end to end life cycle, specifying roles and responsibilities of each department and this SOP shall be made part of the product note. The product note shall also cover arrangements for exposure ceiling and asset quality threshold to prevent breaches, movement of external rating of NBFC etc.

MD & CEO Committee shall be the authority to approve Co-Lending arrangements. While approving the arrangement, the Committee shall ensure compliance of broad parameters specified in the policy and shall stipulate an exposure ceiling for loans sanctioned under the respective arrangement. The tolerance level for the stress from the portfolio shall be specified and arrangements for review shall be ensured. MD & CEO Committee shall take appropriate decision as to whether Bank shall mandatorily take our share of the individual loans originated by the NBFCs in our books as per the terms of the agreement, or to retain the discretion to reject certain loans after our due diligence, based on merits of each arrangement.

17. Monitoring & Recovery

The Bank and NBFC shall create the framework for monitoring and recovery of the loan, as mutually agreed upon.

No fresh lending shall be entertained under the arrangement in the event of breach of thresholds fixed under the product/ scheme. If such NBFC subsequently improves the parameters to the prescribed eligibility norms, lending under the arrangement may be revived with the approval of MD & CEO Committee. Necessary clauses in this regard shall be incorporated in the master agreement with NBFCs.

18. Asset Classification & Provisioning

The Bank and NBFC shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.