EMERGING BUSINESS DEPARTMENT

CO-LENDING POLICY 2024-25

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CO-LENDING POLICY

1. PREAMBLE:

RBI Vide circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018 issued guidelines on co-origination of loans by banks and NBFCs for lending to priority sector. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also for sharing of risks and rewards. Accordingly our Bank had formulated Policy on Co-Origination of loans by the Bank with NBFC-ND-SIs for lending to Priority Sector vide Board Agenda No. BM/699/2019-20/09/10 dated 06.08.2019.

To provide greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc., Reserve Bank of India has now released guidelines on Co-Lending Model vide their circular No. FIDD.CO.BC.No.8/04.09.01/2020-21 dated 05.11.2020**.** The primary focus of the revised scheme, rechristened as “Co-Lending Model” (**CLM**), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. The RBI Circular Dt 05.11.2020 now allows Banks to co-lend with all registered HFCs also.

As per guidelines, this circular dt. 5/11/2020 on Co-Lending Model supersedes the earlier circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018 on co-origination of loans. However, outstanding loans in terms of the circular ibid would continue to be classified under priority sector till their repayment or maturity, whichever is earlier.

Banks and NBFCs (including HFCs) have been advised to formulate Board approved policies for entering into the CLM and place the approved policies on their websites. Based on their Board approved policies, a Master Agreement may be entered into between the two partner institutions which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues. Accordingly, Co-Lending Policy of the Bank is prepared.

Banks can claim Priority Sector Status in respect of their share of credit while engaging in CLM adhering to the specified conditions.

Banks are not allowed to enter into co-lending arrangement with an NBFC belonging to the promoter Group.

In reply to our query seeking clarification on extending Co-lending partnership with NBFCs for non-priority sector loans, Reserve Bank of India vide their mail dated 18th May 2022 advised that that lending institutions, including Banks and NBFCs, can enter into lending arrangements for non-PSL loans in the nature of co-lending as per their Board approved policies, subject to compliance with all the extant prudential regulations including Transfer of Loan Exposures, Outsourcing of Financial Services, KYC, Reporting to CICs etc. as applicable to all the participating entities. It was further informed that the Co-lending guidelines conveyed under FIDD circular dated November 5, 2020 is specifically in the context of priority sector loans only, and the dispensations permitted therein, such as applicability of MHP, cannot be extended to any other lending arrangement.

Loans qualifying under non-priority sector provide good opportunity to Bank in improving the quality of advances, ticket size of home loans and also results is increasing yields. Accordingly bank propose to utilize the Co-lending arrangement with NBFCs for sourcing loans under Non-Priority Sector also.

2. OBJECTIVE:

- To improve the priority sector lending portfolio of the Bank (comprising of all components viz., MSME, Housing Loans, Agriculture etc.,)
- To exploit the partnerships with NBFCs for expanding credit under Non-Priority sector also.
- To deploy the lendable resources more profitably
- To make credit available to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost
- To better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort
- To make available funds to the ultimate beneficiary at an affordable cost, considering lower cost of funds of banks and greater reach of NBFCs
- To improve the customer base of the Bank
- To share the risks and rewards jointly with NBFCs
- To capitalize on the effective recovery mechanism of the partner institutions

3. SCOPE & COVERAGE:

The policy covers essential features of the Co-Lending Model as stipulated by Reserve Bank of India, which inter-alia include, the criteria for selection of partner institutions, terms and conditions of Master Agreement to be entered into between the two partner institutions, 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.

The Master Agreement to be entered into with the partner institution shall provide for the bank to either mandatorily take their share of the individual loans originated by the NBFCs/ **Fintech NBFCs** in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books.

4. CRITERIA FOR SELECTION OF PARTNER INSTITUTIONS (NBFCs/HFCs):

RBI stipulates that banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. Though RBI has not mandated any specific criteria to be fulfilled by the NBFCs (including HFCs), our Bank shall enter into CLM only with those NBFCs/HFCs who fulfill the following criteria:

1. NBFCs/HFC should be registered with RBI/NHB
2. No of years of operation : Min 3 years
3. NBFC/HFC should have made operating profit for the past two years
4. Credit Rating of the NBFC/HFC should be BBB and above and the rating should not be more than one year old as on the date of agreement. The rating should be obtained from an RBI approved Credit Rating Agency
5. CRAR should not be below the CRAR mandated by RBI
6. Net NPA not to exceed 6%
7. The NBFC may have presence in one or two states.
8. The NBFC/HFC should have a minimum Asset Under Management of Rs.100.00 crs
9. The track record of the NBFC/HFC should be satisfactory with Financial Institutions and the account of the NBFC should be Standard with all Banks as per CRILC report.

Due diligence of NBFC:

Before putting up the proposal for on-boarding, due diligence of the NBFC will be conducted on the following parameters:

i. Understanding of the business model and segment of operation.
ii. Origination and underwriting process including deviation structure.
iii. Collection and recovery process and NPA recognition norms.
iv. Storage of documents and security thereof.

Further, the team processing the on-boarding proposal should check few sample loan accounts, mix of secured and unsecured loans, on random basis for acceptability of the origination/ underwriting standards adopted by the NBFC to ensure good quality of assets and to avoid NPAs.

5. FINTECH NBFC FOR COLENDING:

RBI stipulates that banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. Our bank has already made a frame work for partnering with NBFC for Co-Lending. RBI has not mandated any specific criteria to be fulfilled by the NBFCs (including HFCs) for co-lending partnership. These Fintech NBFCs operate in a totally digital environment through app based products, making services available through online mode with end to end process of loan origination, sanction, disbursement and documentation through digital mode. The following eligibility criterion is stipulated for Fintech NBFCs under this model.

1. The Fintech NBFCs should be a company registered with RBI and should be complying with Prudential norms issued by RBI from time to time
2. The eligibility norms for such Fintech NBFCs will also be in line with norms stipulated for other NBFCs if not specifically mentioned under this Clause. Bank will have the right to waive/relax certain parameters based on the requirement.
3. No of years of operation : Min 1 year
4. FinTech NBFC/HFC should have made operating profit for the past two years or Net Profit for latest financials as per latest available Audited Balance Sheet.
5. The Fintech NBFC should have proven track record of successful collaboration and implementation of use cases with Scheduled Commercial Banks (SCBs) or Banking Financial Services and Insurance Sector (BFSIs) in India or Globally or should be able to demonstrate its ability to introduce such Fintech products.
6. It should either be a company incorporated and registered in India or Banks or company licensed to operate in India. Further, financial institutions constituted under a statute of India would be eligible. Two entities joining (JVs) specific to any project will not be considered for engagement.
7. Further, the Fintech NBFC shall not have been debarred / blacklisted by any Indian / Foreign BFSI, Scheduled Commercial Banks, Regulatory Authorities, Central / State Government departments / agencies, Public Sector Undertakings at the time of application. The firm shall provide a suitable declaration to this effect.
8. It should demonstrate that the products/ services are technologically ready for deployment.
9. The entity must demonstrate arrangements to ensure compliance with the existing regulations / laws on consumer data protection and privacy. There should be adequate safeguards built in its IT systems to ensure that it is protected against unauthorized access, alteration, destruction and disclosure.

10. The track record of the FinTech NBFC/HFC should be satisfactory with Financial Institutions and the account of the FinTech NBFC should be Standard with all Banks as per CRILC report.

11. The technology solution of the company should not violate any Intellectual Property rights.

6. PRODUCT LINES:

Partnering with NBFC/HFCs shall be utilized for lending to Priority Sector advances classified as per RBI guidelines. The broad categories of priority sector lending are as under:

- Agriculture
- Micro, Small and Medium Enterprises
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others

Sub-products under each parameter may inter alia include the following:

- Farm Credit - Individual farmers
- Farm Credit - Corporate farmers, Farmer Producer Organisations (FPOs)/(FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities
- Agriculture Infrastructure
- Ancillary Services
- Small and Marginal Farmers (SMFs)
- Micro, Small and Medium Enterprises (MSMEs)
- Khadi and Village Industries Sector (KVI)
- Other Finance to MSMEs
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others

Loans extended under Co-Lending Model (CLM) should conform to classification under Priority Sector as per RBI Master circular No. RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/ 2020-21 dated 4th September 2020 and revision thereof if any, from time to time. Such loans qualifying under priority sector are given special dispensations permitted therein, such as applicability of MHP, which cannot be extended to any other lending arrangement. Accordingly non-priority sector loans extended under co-lending model Option-2 (akin to DA) should conform to guidelines issued under Transfer of Loan Exposures.

The loans extended under CLM model may be in the nature of Term Loans (secured/unsecured), Short Term working capital loans, Machinery loans, Business Loans secured against property/unsecured, Housing Loans, Farm Credit, Agri Infra loans, Educational Loans etc.,

Co-lending model is not like a traditional lending model and requires both lenders to harmonize their lending policies to provide better products to the customers. Since each of these NBFCs operate in a niche market where loan sourcing and sanctioning process is proprietary to each NBFC, the products proposed by NBFCs are also unique for each NBFC and adopts different methodology for underwriting, assessment methodology, repayment capacity, LTV norms, bureau scores, takeover of loans from other institutions etc., To ensure that the partnership results in win-win situation for both the lenders, product policies of both the lenders need synchronization. Harmonization of policies will help in introducing innovative products through co-lending model. By harmonizing policy guidelines, overall standards can be strengthened and the arrangement can be exploited to its full extent in improving credit flow to unserved and underserved sector of the economy as envisaged under regulatory guidelines of Co-lending model. The Bank’s business growth under Co Lending also contributes to achievement of priority sector regulatory targets.

RBI guidelines on Co-origination of loans by Banks and NBFCs for lending to Priority Sector, now superseded by guidelines on Co-Lending by Banks and NBFCs to Priority Sector envisages that the arrangement should involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC, inter alia covering all the essential features.

The indicative Co Lending specific loan parameters where synchronization between policies of both the lenders is required are as under:

Maximum loan tenure of 15 years, subject to economic life of the machinery (in case of finance for purchase of machinery), lower CIC scores, different norms for takeover of advances, assessment methodology based on repayment capacity identified by DSCR, cash flows, average bank balances, other assessment methods, clubbed income of borrowers/joint borrowers, acceptance of loans originated after 5/11/2020 subject to compliance with approved product parameters etc.,

These proposed parameters are instrumental to garner more business under Co Lending, avoid moving for approvals on case-to-case basis and give more clarity for seamless implementation of Co Lending arrangement.

Therefore, the products policy parameters proposed by NBFCs under co-lending model may be accepted if they are not inconsistent with RBI's extant guidelines. Besides, before adopting, these products are invariably deliberated in New Product Approval Committee (NPAC). A Department Level Committee headed by General Manager, Emerging Business, comprising of members from Emerging Business and Risk Management Department is authorized to approve any modifications in the products approved under Co-lending model with NBFCs for any operational issues/modifications in SOP/product parameters from time to time, subject to approval by functional Executive Director and reporting to CRMC for information. To seize the business opportunities, products approved by the NPAC shall be launched immediately and shall be reported to the Board for information.

7. AREAS OF OPERATION:

Co-Lending Model with NBFCs/HFCs shall extend to the entire area of operations of both the institutions across India or predominantly in a particular state/geographic location as per the mutually agreed terms in Master Agreement.

8. MASTER AGREEMENT WITH NBFC/HFC:

The Bank and the NBFC/HFC shall enter into a master agreement for implementing the CLM. Bank shall retain the discretion to take their share of the individual loans originated by the NBFCs in their books as per the terms of the agreement, or to reject certain loans after its due diligence prior to taking in their books. Irrespective of the nature of the agreement the following features shall be common:

1. Sharing of Risk and Rewards: The NBFC/HFC shall assume minimum share of 20% of the direct exposure till maturity in their books and the balance amount shall be in the books of the Bank.
2. The NBFC/HFC shall give an undertaking to the Bank that its contribution towards the loan amount is not funded out of the borrowing from the co-originating bank or any other group Company of the partner Bank.
3. Interest Rate: NBFC/HFC would have the flexibility to price their part of the exposure, while the Bank shall price its part of the exposure in a manner found fit as per their respective risk appetite and also the extant RBI regulations issued from time to time. However the ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.
4. Parties to Co Lending Arrangement:
   a. Borrower
   b. NBFC/HFC
   c. Bank

5. Flow of Funds: All transactions (disbursements/repayments) between the bank and NBFCs/HFC relating to CLM shall be routed through an escrow account maintained with the Bank in order to avoid inter-mingling of funds.
6. The Bank and NBFC/HFC shall formulate a Master Agreement detailing terms and conditions for origination of loans under CLM. The Master Agreement shall define the mutually agreed parameters for lending, define the product contours, permissible Loss estimates in case of DA transactions etc., .
7. To comply with the guidelines issued by RBI on Managing Risks and Code of Conduct in Outsourcing of Financial services, the Bank and NBFC/HFC shall put in place suitable mechanism for ex-ante due diligence by the Bank as the credit sanction process cannot be outsourced under the extant guidelines.
8. The Master Agreement should inter alia cover the following areas:
   a. Activity of the borrower
   b. Location
   c. Eligibility criteria for the borrower
   d. CIC scores of the borrower
   e. LTV ratio of the loans
   f. Repayment mode, tenure etc.,
   g. Documents to be obtained
   h. Maximum loan amount and tenor of loan
   i. Share of Bank and NBFC in the loan amount
   j. All-inclusive rate of interest, other charges etc.,
   k. Creation of charge on primary and collateral securities
   l. Post disbursement monitoring mechanism
   m. Recovery and appropriation of installments
   n. Duties and responsibilities of Bank/NBFC
   o. Margin requirement
   p. Repossession of primary and collateral securities
   q. Business Continuity Plan
   r. Termination of contract
9. Know Your Customer (KYC): 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 25.02.2016 and updated from time to time, which already permit regulated entities at their option to rely on customer due diligence done by third party, subject to specified conditions
10. Asset Classification and Provisioning Requirement: Each of the lenders shall follow its asset classification and provisioning requirement as per the respective regulatory guidelines applicable to each of them.

11. Reporting to CIC: In respect of the loans under CLM 2, the NBFC shall be ensuring the reporting of the entire exposure to the CIC. In respect of the loans under CLM1, both the lenders shall report to CIC for their respective share of the loan.
12. Assignment of Loans: Any assignment of a loan by a Co-Lender to a third party can be done only with the consent of the other lender
13. Business Continuity Plan: The Bank and the NBFC/HFC shall formulate a Business Continuity Plan to ensure uninterrupted service to the borrowers till repayment of the loans under the CLM.

Audit/Periodic Verification: The loans under CLM shall be subject to periodic verification by Banks/NBFC's/HFC's Internal Audit/Statutory Audit to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements.

9. DEALING WITH THE CUSTOMERS (CUSTOMER RELATED ISSUES):

a) The NBFC/HFC 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/HFCs and banks.
b) All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
c) The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and NBFCs/HFCs therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
d) The NBFC/HFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.
e) Grievance redressal: It shall be the responsibility of the NBFC to explain the end-to-end process & procedure to borrowers regarding difference between products offered through the co-lending model as compared to its own products. The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. Any complaint registered by a borrower with the NBFC shall also be shared with the bank and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

10. OTHER OPERATIONAL ISSUES:

a) The co-lending banks and NBFCs/HFCs shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.
b) The NBFC/HFC shall share the proposals/ data/KYC details through digital mode and the same shall be maintained by the bank in digital format only.

c) e-KYC based on Aadhar authentication/digital verification of KYC and digitally signed loan documents shall be accepted.
d) The Master Agreement may contain necessary clauses on representations and warranties which the originating NBFC/HFC shall be liable for in respect of the share of the loans taken into its books by the bank.
e) The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
f) The NBFC shall arrange for creation of security and charge as per mutually agreeable terms.
g) The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and NBFCs/HFCs to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
h) Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.
i) If the bank exercises its discretion regarding taking into its books the loans originated by NBFC/HFC as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over 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//2012- 13/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012 respectively, which is now repealed and substituted with fresh Circular No. DOR/STR/REC/52/21.04.048/2021-22 dated 24/09/2021, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM. The MHP exemption shall be available only in cases where the prior agreement between the banks and NBFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.
j) In case of DA transactions, the Master Level Agreement should specify the terms and conditions of such arrangement.
k) As per the clarification given by Reserve Bank of India, if the bank can exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement, the arrangement will be akin to a direct assignment transaction. If the Agreement entails a prior, irrevocable commitment on the part of the bank to take into its books its share of the individual loans as originated by the NBFC, it shall not be akin to direct assignment transaction.
l) Accordingly bank intends to adopt both the options i.e., (1) exercising discretion regarding taking into its books a pool of assets akin to a direct assignment transaction and also (2) irrevocably agree to take into its books its share of individual loans as originated by the NBFCs, subject to ex-ante due diligence of the proposal by the Bank. Such due diligence should ensure compliance with RBI regulations on KYC and outsourcing of activities before disbursal of the loans by the NBFC.

m) Bank will reimburse NBFC for the services viz., originating, administering and recovery of loans. The bank and NBFC shall have the flexibility to decide the methodology for such re-imbursement. Bank can either reimburse the NBFC for the services rendered or can factor it in the all-inclusive interest rate and the same can from part of the Master Agreement between the bank and NBFC.

n) **Stand-alone sanction of loan under Co-lending**: If any existing borrower of the Bank is sourced by NBFC, then facility under Co-Lending will be assessed & sanctioned on standalone basis i.e. without linking the existing individual / group with the Bank for the purpose of Lending Power. However, total exposure including the existing exposure of individual/group with the bank shall be considered as exposure of our Bank under Prudential exposure limits.

NBG approval not required in respect of the proposals sourced by NBFCs under co-lending.

o) **Safe custody of documents:** As per bank's present practice, the documents executed in the respective branch are kept with branch itself. Since, it is a Co-Lending arrangement, the security documents may be kept under a third party repository as mutually agreed upon making it convenient for retrieval. This will be subject to the conditions that duly attested/certified scanned copies of all the executed documents will be provided to our bank as and when demanded. However, the Master Agreement should inter-alia contain the suitable clauses including indemnity clause along with right to retrieve the documents (jointly with NBFC or individually by Bank, as applicable) from the third party repository. Suitable clauses should be incorporated in the agreement to ensure that in case of liquidation of NBFC or if otherwise required by Bank, all the documents should be retrieved as and when required by the bank within a certain time frame. Bank may also have the account wise list of documents held by the third party repository, to avoid any dispute in future.

p) Bank has adopted digital processing of loans through various channels viz., National Portal, PSB loans, LLMS wherein the entire information, CAM sheet etc., are maintained in digital format only. With the adoption of technology for co-lending operations, entire process of sanction, disbursement and recovery will be automated. Entire data of proposals processed through the technology platform shall lie within the bank's servers. For all proposals processed under co-lending model, bank shall maintain soft copies of the entire proposal and related documents and need not hold any hard copies. Adequate back up of data server with proper disaster recovery management system along with network & cyber security shall be in place.

q) **Delegated Lending powers: Delegated Lending powers:** As per extant Loan Policy, lending powers are delegated at various authorities. All proposals under Co-lending Model shall be sanctioned by Branch Level Credit Committee (BLCC) headed by DGM, Emerging Business Branch up to their delegated lending powers as per Loan Policy i.e. up to Rs.10.00 cr and group exposure up to Rs. 15.00 cr at present.

The BLCC (DGM) committee will comprise of 4 members:-

Chairman : DGM, Emerging Business Branch

Members :-

1. AGM, Co-lending Vertical of the Branch
2. Chief Manager / Senior Manager / Manager of the Branch

Quorum would be minimum 3 members – Chairman and one member who has not handled the proposal is compulsory for the quorum in the BLCC meeting.

Co-lending proposals above these limits and up to Rs.20.00 cr and group exposure up to Rs.30.00 cr shall be considered at Department Level Credit Committee at Emerging Business Department, headed by DGM, Emerging Business, comprising of the following members:

Chairman: DGM, Emerging Business

Members:

1. AGM, Emerging Business
2. CM, Risk Management Dept.,
3. CM, Emerging Business
4. CM, MSME Department
5.CM Corporate Credit Department

Quorum of the committee shall be minimum 3 including Chairman and one member from either of the Risk / MSME / Corporate credit Department is compulsory for the quorum in the meeting.

Co-lending proposals above these limits and up to Rs.30.00 cr and group exposure up to Rs.60.00 cr shall be considered at Department Level Credit Committee at Emerging Business Department, headed by GM, Emerging Business, comprising of the following members:

Chairman:

GM, Emerging Business / GM MSME (Alternate GM in the absence of the GM, Emerging Business)

Members:

1. DGM/AGM, Emerging Business
2. CM/AGM, Risk Management Dept.,
3. CM, Emerging Business
4. CM / AGM, MSME Department
5. CM / AGM, Corporate Credit Department

Quorum of the committee shall be minimum 3 including Chairman and one member from the Risk / MSME / Corporate credit is compulsory for the quorum in the meeting.

Proposals in excess of Rs.30.00 cr (group exposure Rs.60 cr) shall be dealt with in accordance with the extant Loan Policy provisions.

r) Control returns: Extant guidelines on Loan Policy stipulate that a summary report on exercise of lending powers will be submitted to the controlling office, in the prescribed form (Control Return Annexure II) within a week of the following calendar month. Co-lending Cell shall submit sanctions in a consolidated manner on monthly basis to its controlling office.

s) The loans under Co-lending are exempted from Credit Audit / Legal Audit / Stock Audit/LRM

t) Exposure Cap: Our exposure under Co-lending model for a particular NBFC / HFC / Fintech NBFC shall be upto 25% of the AUM of NBFC / HFC or as stipulated by the Competent Authority for approval of the Tie-up.

u) Down gradation of Rating of the NBFC: The down gradation of external rating of NBFC to BBB or less will automatically disqualify the NBFC to have any further co-lending business with the Bank till such time the rating is restored and co-lending arrangement is reviewed by the competent authority for approval of tie-up in which a fresh approval would be obtained for restart of co-lending business with the said NBFC.

v) Inspection of Securities charged under co-lending : In respect of individual exposure of Rs. 1 crore and above, the securities charged shall be inspected by the officials of the Bank before the end of the succeeding month of disbursement**.** In the remaining cases, 5% of the number of accounts sanctioned during the quarter shall be inspected on a random basis by the officials of the Bank. The exercise shall be conducted through the CA & ID.

In respect of partnership of Gold Loans, 2% of the accounts sanctioned during the month or as approved by the MD CEO or NPAC, shall be verified for genuineness through the Bank empanelled Valuers

11. CGTMSE COVERAGE:

The Trust shall cover credit facilities (Fund based and / or Non fund based) extended by pair of MLIs without any collateral security / third party guarantee to a single eligible borrower in the Micro and Small Enterprises sector with guarantee ceiling of i) Rs. 500 lakhs for the credit facility secured by way of Primary Security; and ii) Rs. 200 lakhs for unsecured credit facility

Only those credit facilities where the effective interest rate charged to the MSE borrower under CLM arrangement is up to a maximum of 21% shall be eligible for coverage under CGSCL as per the present guidelines and revised from time to time by CGTMSE

Any MLI is allowed to lodge guarantee application under Credit Guarantee scheme for co-lending for its share of loans to MSEs, even if the other MLI choose not to lodge the application for guarantee for its share of loans subject to the Lodging MLI being contact point for CGTMSE for lodgement of guarantee application, payment of guarantee fee, initiation of legal action and lodgement of claim if the a/c turns into NPA

Guarantee Fee will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facility as per the present rates given hereunder and revised from time to time:-

Credit facility amount	Annual guarantee fee % p.a.
Up to Rs. 10 lakh	0.37
Above Rs. 10 lakh upto Rs. 50 lakhs	0.55
Above Rs. 50 lakhs upto Rs. 1 crore	0.60
Above Rs. 1 crore upto Rs. 2 crore	1.20
Above Rs,. 2 crore upto Rs. 5 crore	1.35

Annual Guarantee fee will be charged on the guaranteed amount for the first year and on the outstanding for the remaining tenure of the credit facility.

Charging of Annual Guarantee at 10% discount on the above rates has been allowed to Women / SC & ST / Person with Disability / Agni veers entrepreneurs / ZED Certified borrowers upto Rs. 5 crores and MSE units situated in NER including Sikkim / UT of J&K / UT of Ladakh / Aspirational districts for amount upto to Rs. 50 lakhs.

<table>
<tr><th rowspan="2">Category
(Including Trading Activity)</th><th colspan="3">Maximum extent of Guarantee Coverage (where guaranteed credit facility is) – both secured and unsecured</th></tr>
<tr><th>Upto Rs. 5 lakhs</th><th>Above Rs. 5 lakhs & upto Rs. 50 lakhs</th><th>Above Rs. 50 lakhs & upto Rs. 500 lakhs</th></tr>
<tr><td>Micro Enterprises</td><td>85</td><td>75</td><td rowspan="2">75</td></tr>
<tr><td>MSEs located in North East Region (incl. Sikkim, UT of J&K and UT of Ladakh</td><td colspan="2">80</td></tr>
<tr><td>Women Entrepreneurs / SC & ST entrepreneurs / MSEs situated in Aspirational District / ZED certified MSEs / Person with Disability (PwD) / MSE promoted by Agniveers</td><td colspan="3">85</td></tr>
<tr><td>All other category of borrowers</td><td colspan="3">75</td></tr>
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12. SETTLEMENT MATRIX:

Partner NBFC assumes responsibility for recovery of loans originated through Co-lending arrangement. Loss estimates are generally discussed in the product policy parameters. Since recovery mechanism adopted by NBFCs is swift and stringent, a laid down policy for settlement of delinquent accounts originated under Co-lending augurs well for settlement at the insipient stage of stress. Settlement matrix is generally discussed and approved in the product policy parameters and the delinquent accounts, if any. would be settled in accordance with the said agreed settlement matrix. Wherever the product/master agreement is silent on such settlement matrix, the accounts would be settled in accordance with settlement matrix separately approved by the Bank for accounts originated under Co-lending arrangement.

13. DEFAULT GUARANTEE:

All financial products involving contractual agreement between the bank and NBFCs/ Fintech NBFCs to compensate up to a certain percentage of default in the portfolio shall be adhered to extant guidelines (laid down in Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 dated September 24, 2021) and RBI circular RBI/202-24/41/DOR.CRE.REC.21/21.07.001/2023-24 dt. 08.06.2023 on Default Loss Guarantee (DLG) in Digital Lending

14. CLARIFICATIONS ON OPERATIONAL ISSUES:

Further clarification by Reserve Bank of India on Co-lending by banks & NBFCs:

Reserve Bank of India vide their FAQs on Master Directions on Priority Sector Lending Guidelines (updated on 9th November 2021) clarified as under:

Query: Whether Co-lending Arrangement allows NBFCs to retain 100% of the risk?

Clarification: While the guidelines allow sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, the priority sector assets on the bank's books should at all times be without recourse to the NBFC.

The above clairification implies NBFCs to retain 100% of the risk in case of non-priority sector assets and the priority sector assets should always be without recourse to NBFC. Accordingly it is proposed to incorporate a clause to retain 100% risk with NBFCs in case of non-priority sector assets or stipulate FLDG clause in such cases.

Query : Are direct assignment of assets applicable only where bank can exercise its discretion?

Clarification: Only if the bank can exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement, the arrangement will be akin to a direct assignment transaction. If the Agreement entails a prior, irrevocable commitment on the part of the bank to take into its books its share of the individual loans as originated by the NBFC, it shall not be akin to direct assignment transaction.

Query: Does the term "Mandatorily" in CLM guidelines means that the bank must take all the loans originated by NBFC or a cap can be affixed on the number and amount in the Master Agreement.

Clarification: Both entities, the bank & the NBFC shall be guided by the bilateral Master Agreement entered by them for implementing the Co-lending Model (CLM). The agreement may state any cap on the number and amount of loans that can be originated by the NBFC under the Co-lending model.

Query: What will be the fate of loans originated by NBFC, which do not qualify under due diligence checks to comply with RBI regulations on KYC and Outsourcing of activities.

Clarification: If the Agreement entails a prior, irrevocable commitment on the part of the bank, it has been advised that the partner bank and NBFC shall have to put in place suitable mechanisms for ex-ante due diligence by the bank. Such due diligence should ensure compliance with RBI regulations on KYC and outsourcing of activities before disbursal of the loans by the NBFC.

Query: Does the term back-to-back mean loan accounts will first be opened by NBFC and thereafter bank will open loan accounts in its books or both will open loan accounts and fund them simultaneously based on the loan agreement signed by the borrower with the NBFC.

Clarification: Back-to-back basis implies that the loans will be first opened by NBFC and then bank will open loan accounts subsequently.

Query: Based on the loan documents executed, will the NBFC sanction and disburse the whole amount and thereafter approach the bank for reimbursement or will it sanction/ disburse its part of the loan and then approach the bank to sanction/ disburse its part.

Clarification: The bank and the NBFC can decide on this aspect as per the Master agreement between them.

15. COMPETENT AUTHORITY FOR VARIOUS ISSUES:

The authorities for approval and considering the variations are as under:

Approval For	Authority
Selection of Co-lending partner NBFC and entering into Co-Lending arrangement	MD & CEO
Specific deviation as regards to selection of NBFCs, if any	MD & CEO
Commercials (rate of interest, sourcing fee, collection fee etc.)	MD & CEO
Initial approval of the product & process related modalities and all related matters, amount of loan, pricing, service fee, etc.,	New Product Approval Committee headed by MD & CEO
Finalisation of SOP, Signing of Master Agreement, SOP and Servicer Agreements etc.	Vertical Head, emerging Business Department.
Approval of operational issues/ modifications to SOP/product parameters from time to time.	Department Level Committee headed by General Manager-Emerging Business and on approval by functional ED, The same shall be put up to CRMC for information.

16. **REVIEW OF THE POLICY**:

- The Policy shall be valid up to 3 years from the date of approval however review may be undertaken before due date, if there is any change in the regulatory guidelines or in Bank's internal guidelines.
- The existing Policy will be valid till the next renewal/ review.
- Any regulatory guidelines issued by RBI/ Government, post approval till the date of expiry of this Policy, shall form part of this Policy pending formal inclusion at the time of renewal of the Policy.
- The Policy is prepared by Co-Lending department which is also responsible for its ownership and maintenance. Any queries related to the Policy or request for any modification will be addressed by Co-Lending Department.

All related statutory guidelines/circular issued by RBI/GOI are incorporated in the policy**.**