CO-LENDING POLICY

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Objectives:

a) **Creation of New Loan Book:** The reach of the NBFCs among the local population helps them to assess their financial needs and can help in increasing the Bank's loan portfolio in these areas. NBFCs can originate fresh loans in different loan categories in all segments, such as AGRI, SME, Retail etc. for creation assets as per a prior master agreement with the Bank.

b) **Support in Follow-up & Recovery:** NBFCs would also provide support in post sanction follow-up and recovery. It will increase the Bank's reach and business without increasing pressure on the rural branches, while keeping operating costs down.

c) **Leveraging outreach, technology, automated process and specialization of NBFCs –** The proposed policy is meant to leverage NBFC's specialization in specific geography, sector, borrower type and loan ticket size. We further want to leverage their technology which has been developed specifically to their target segment.

d) **Reduced cost of customer acquisition:** The proposed policy shall help us to increase our customer base and presence in tech specific lending segment like supply chain finance, ecomm/ fintech platform and Government schemes like Gem Sahay etc. without spending on platform hence will help us to increase our presence at reduced cost of customer acquisition.

Essential Features of Co-Lending Model (CLM) between Bank & NBFCs:

1. Scope

I. In terms of the CLM, Bank is permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. As the co-lending Bank, it will take its share of the individual loans on a back-to-back basis in its books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

II. A Master Agreement is to be entered between the Bank and NBFC, which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner NBFC, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues.

III. The Master Agreement to be entered into by the Bank and NBFC for implementing CLM may provide for the Bank to either mandatorily take its share of the individual loans originated by the NBFC in its books or to retain the discretion to reject certain loans subject to Bank's due diligence, prior to taking in to its books.

a. 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, the arrangement to comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks. In particular, the Bank and partner NBFC shall have to 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. **Know Your Customer (KYC) Norms:** Bank shall be required to comply with the Master Directions – Know Your Customer (KYC) Direction, 2016, updated from time to time,

which already permit **regulated entities (RE),** at their option, to rely on customer due diligence done by a third party subject to specified conditions. In this connection, KYC done by NBFCs can be accepted if it is as per RBI guidelines subject to the conditions mentioned under Chapter 5, Para 14 of RBI Master Direction on KYC updated as on 12/07/2018 which reads as under -

For verifying the identity of customers at the time of commencement of an account-based relationship, REs, shall at their option, rely on customer due diligence done by a third party, subject to the following conditions:

i. Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.
ii. Adequate steps are taken by REs to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.
iii. The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act.
iv. The third party shall not be based in a country or jurisdiction assessed as high risk.
v. The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the RE.

Therefore, Bank shall require partner NBFCs to agree to these conditions and carry out CKYC and share the CKYC number for all beneficiaries. The NBFCs will also share the KYC documents with the Bank as stipulated above.

c. 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. Accordingly, Bank shall ensure compliance with all the requirements in terms of RBI Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities, vide RBI Circular RBI/2011-12/540 DBOD No. BP. BC-103/21.04.177/2011-12 dated May 07,2012 with the exception of Minimum Holding Period (MHP), which shall not be applicable in such transactions undertaken in terms of this CLM.

d. 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.

e. This shall imply that the loans will be first opened by NBFC and then Bank will open loan accounts afterwards. The NBFC can sanction and disburse the whole amount of the loan and then approach the Bank for reimbursement (as clarified vide RBI mail dated 26.11.2020).

IV. However, Bank shall not be allowed to enter into a co-lending arrangement with an NBFC belonging to the promoter Group.

2. **Customer related issues**

a) 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 the NBFCs and the Bank.

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

c) 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.

d) The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Bank and NBFCs therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

e) The NBFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.

f) With regard to grievance redressal, suitable arrangement must be put in place by the co-lenders 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.

g) For the sake of business continuity and to ensure uninterrupted flow of credit to the priority sector, Banks may continue existing arrangement till the Board approved co-lending policy is put in place by them (as clarified vide RBI Circular FIDD.CO.Plan.581/04.09.001/2020-21 dated 02.12.2020.

3. Other Operational Aspects

a) The co-lending Bank and NBFCs shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the Bank 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 should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.

c) The Master Agreement may 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.

d) The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.

e) The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.

f) Each lender 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.

g) Any assignment of loans by any of the lenders to a third party can be done only with the mutual consent of both the lenders. Further, any change in loan limit of the co-lended facility can be done only with the mutual consent of both the lenders.

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

i) Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.

j) Both the Bank and the NBFCs shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.

4. Selection of NBFCs:

I. Eligibility Criteria: For Co-Lending, NBFCs shall satisfy the following criteria however BC committee is authorized to deviate from any of the criteria as deemed fit.

Parameter	**Criteria**
External Credit Rating (ECR)	**A (-) and above (*)** - *Not history of downgrade in recent 1 year.*
Experience of NBFC in managing Asset Portfolio	5 years or more
Assets under Management	Rs.200 Crore and above
Net worth	Rs.25 Crore or more
TOL/NOF :	NBFC- Up to 6 Times HFC - Up to 8 times

Gross NPA	Less than 5%
Capital Adequacy ratio (CAR) in latest 2 Years	200 Bps more than regulatory requirement.
Default track record of NBFC with lenders	Nil
Technological platform	Must be available to maintain accounts and exchange necessary MIS
Compliance with RBI and other regulatory authority	Mandatory *as certified by professional CMA/CA/CS*

(*) For all Agri loans (irrespective of the limit) and loans under Micro Finance (up to Rs. 1 lakh per individual), the minimum external credit rating acceptable is BBB.

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

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

Bank will define common customer selection criteria and underwriting norms for each NBFC partner depending upon proposed product and shall be put to BC committee for approval. Further, the team processing the on-boarding proposal, should check first 20 sample loan accounts/ as per may be agreed with NBFC for acceptability of the origination/underwriting standards adopted by the NBFC to ensure good quality of assets and to avoid NPAs.

III. Selection Procedure: BUs may initiate discussions with the NBFCs in their respective areas for co-lending. On being satisfied about the Business Potential, the designated branch of the Circle will initiate the on boarding process through NBFC Alliances Department. BUs may also proactively scan the market to explore the possibility as there are several NBFCs operating in more than one segment.

The BC Committee of Bank is authorized to decide on NBFC partners, loan book size, vintage of NBFC, pricing and service charges, if any etc. and empowered to approve any deviation from selection criteria.

The draft Master Agreement (MA) with the concerned NBFC containing the details of the arrangement , duly vetted by Law Department, will also be approved by the BC committee.

IV. Area of Operation and Credit Risk: Co-lending of loans with NBFCs may be restricted generally to their domain of expertise. The same is to be incorporated in Master Agreement.

V. Type of Assets: Co-lending can be done for Retail / MSME/ SME oriented standard assets except for the following:

i. Revolving credit facilities (e.g. Credit Card receivables)
ii. Assets purchased from other entities
iii. Loans with bullet repayment of both principal and interest

VI. Tenor of the loan: Tenor of loan shall be mutually agreed between Bank and NBFC under guidance Bank's master policy for that product (if available).

5. NPAs

a) **Recognition of NPAs**: Recognition of NPAs will be done as per RBI guidelines as applicable to respective co-lenders.

b) **Compromise and Settlement:** Bank's existing compromise & settlement policy will be applicable for Co-lending loans.

6. Internal Audit: The loans under CLM shall be included in the scope of Internal/statutory audit within the Bank and NBFC to ensure adherence to their respective internal guidelines, terms of the agreement, extant regulatory requirements and additional requirements from Govt. of India in case of loan accounts becoming eligible for interest subvention etc., if any. Therefore, Bank's extant RFIA & Statutory Audit guidelines will be made applicable to all loans under co-lending model.

7. Provisioning/Reporting Requirement: Bank and NBFC will follow independent provisioning requirements including declaration of accounts as NPA, as per the regulatory guidelines applicable to respective entities. Bank and the NBFC will carry out their respective reporting requirements including reporting to Credit Information Companies, under respective applicable laws and regulations for their portion of lending.

8. Assignment: Assignment of loans to third party will be done only with the mutual consent of Bank and NBFC.

9. Cross Sell: Bank shall have rights to cross sell its/ associates/ JV's products to the canvassed customers under the Co-lending Model program, extent of which would be detailed in the proposal to be approved/sanctioned by the competent authority/ Master Agreement.

10. Loan Documents; Loan agreements shall be drafted and finalised in consultation with NBFCs and would be vetted by legal department.
Bank may entrust the NBFC (through a Power of Attorney) with the responsibility of execution of documents on bank's behalf. However, indemnity from the NBFC to cover the loss to the Bank in case of failure by NBFC in duly performing its duty to be obtained. Further, this arrangement to be captured in the Master Agreement with NBFC

11. Co-branding of documents: NBFC being the front ending partner and representing both the lenders in front of the customer, it is desirable for all the parties to have a co-branded set of documents to smoothen the process for customer facilitation and awareness.
Common Documents include but not limited to – Application form, Sanction letter, Facility Agreement and/or any other document communicated to the customer having any legal implication.

12. Standalone sanction of Co-Lending loan: If any existing borrower of the Bank is sourced by NBFC, then facility under Co-Lending loan will be assessed & sanctioned on standalone basis i.e. without linking the existing individual / group with the Bank for the purpose of loan delegation subject to:

i. The Sanctioning authority of Co-Lending loan shall ensure that the conduct of the borrower / group account is satisfactory and regular review of facilities is not pending for the concerned borrower.

ii. The recommendation / views of the concerned branch / relationship team of the borrower is obtained.

13. Safe Custody of Documents: Since, it is a co-lending arrangement, the 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 and shall be vetted by the legal officer of bank before disbursement.

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.

14. Grievance Redressal: It will be the responsibility of the NBFCs to disclose and explain to the end borrower regarding the details of the arrangement upfront and their explicit consent taken in the co-lending model. NBFC shall be primarily responsible for providing the required customer service and grievance redressal to the borrower. Suitable arrangements to be put in place by the Bank and NBFC in the Master Agreement to resolve any complaint registered by a borrower with the NBFC within 30 days, failing which, the borrower shall have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

15. Information Technology Enablers: The following processes will be enabled through IT integration (the list is illustrative one and not exhaustive):

a) Rule based application for automation of appraisal and sanction.
b) Escrow type common account for disbursals as well as to appropriate loan repayments from borrowers.
c) MIS for disbursements, repayments due and recoveries made.
d) Creation of fresh products codes as per the approved co-lending policy.
e) Calculation of income sharing on monthly basis.
f) Sharing of loan account Data with NBFCs for providing unified statement to the borrower by NBFCs.

The RBI circular no. FIDD. CO. Plan. BC.No.8/04.09.01/2020-21 dated 05/11/2020 and subsequent clarifications vide e-mail dated 26.11.2020, Circular No. FIDD.CO.Plan.569/04.09.001/2020-21 dated and Circular No. FIDD.CO.Plan.581/04.09.001/2020-21 dated 02.12.2020 stipulate co-lending.

Arrangement between all registered NBFCs (including HFCs) and Banks based on a prior agreement. This Policy will mutatis mutandis cover all entities identified by RBI for Co-lending of loans in future.