Policy on Co-Lending with NBFCs for lending to Priority Sector

1 Co-Lending Model (CLM)

1.1 Co-Lending with NBFCs (including HFCs) for lending to Priority Sector is a system put in place by RBI in place of 'Co-origination of loans with NBFCs for lending to Priority Sector' to provide greater operational flexibility to lending institutions and to improve the flow of credit to the unserved and underserved sector of the economy and to make funds available to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from Banks and greater reach of the NBFCs. The CLM gives the banking sector another avenue to meet their Priority Sector Lending (PSL) requirements.

The arrangement shall entail joint contribution of credit at the facility level, by both lenders. It shall also 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 NBFCs, inter-alia, covering the essential features.

While engaging in these arrangements, inter-alia, the Bank/ NBFC is required to adhere to extant guidelines on outsourcing of financial services. Accordingly, though the NBFC is expected to source loans as per the mutually agreed parameters between the Bank and the NBFC, the Bank shall not outsource its part of credit sanction component to the NBFC.

A Master Agreement has to be entered into between the Bank and 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. The Master Agreement provide for the Bank to either mandatorily take the share of the individual loans originated by the NBFCs in the books as per terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books, subject to the conditions specified in the essential features of CLM between the Bank and NBFC.

The Bank proposes to fix an exposure ceiling of 0.50% of the total exposure of the Bank under the arrangement. Exposure to registered NBFCs (including HFCs) under this arrangement shall be independent of the exposure ceiling proposed to lending to NBFCs (i.e. 16% of total exposure as per Loan Policy 2020-21). The NBFCs rated externally with "AAA" and "AA" rating only will be considered under this arrangement and Bank proposes following exposure limits per NBFC, under CLM:

'AAA rated NBFC –Rs.50 crore.

"AA" rated NBFC – Rs. 30 crore.

The Bank can claim Priority Sector status in respect of its share of credit while engaging in CLM. However, the Priority Sector assets on the Bank's books shall at all times be without recourse to the NBFC.

1.1.01. Sharing of Risk & rewards:

The Bank will retain the discretion to reject certain loans subject to its due diligence. 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 must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing Financial Services by Banks issued vide RBI/2014-15/497/DBR. No.BP.BC.76/21.04.148/2014-15 dated 11.03.2015 and updated from time to time. The Bank and NBFC 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. In terms of the CLM, Bank is permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The Bank will take its share of the individual loans on a back-to-back basis in the books. However, NBFCs are required to retain a minimum of 20 percent share of the individual loans on their books.

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, 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//2012-13/170 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. The MHP exemption shall be available only in cases where the prior agreement between the Bank and NBFC contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment. Bank will not enter into Co-Lending arrangement with an NBFC belonging to the promoter group.

The NBFC shall give an undertaking to the Bank that its contribution towards the loan amount is not funded out of borrowing from the co-lending bank or any other group company of the partner bank.

1.1.02. Interest Rate:

Based on the respective interest rates and proportion of risk sharing, a single blended interest rate shall be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, shall be offered in proportion to their share of credit and interest. Bank will price the exposure in a manner found fit as per the respective risk appetite/ assessment of the borrower and the RBI regulations issued from time to time. The NBFC would have the flexibility to price their part of the exposure. The NBFC-MFIs which are categorized as NBFCs, are also required to abide by the pricing of credit and other applicable guidelines for loans covered under "Qualifying Assets" regarding their contribution towards the loan.

However, notwithstanding the charging of a single blended/ weighted average rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the bank and the NBFC. The bank shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc., as and when called for by the Reserve Bank of India.

An indicative illustration for calculation of Blended/ Weighted Average Interest Rate provided by the RBI is furnished under **Annexure**.

The ultimate borrower will be charged an all-inclusive interest as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.

1.1.03. Know Your customer (KYC): The Bank /NBFC shall adhere to 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 already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

1.1.04 Loan Sanction: The NBFC should recommend to the Bank, the proposals as found relevant for joint lending. The Bank will independently assess the risks and requirements of the applicant borrowers. The loan agreement will be tripartite in nature, wherein, both the Bank and the NBFC will be parties as lenders to the loan agreement with the customer.

1.2. Customer Related Issues:

1.2.01. 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 the Bank.

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

1.2.03. 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.

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

1.2.05. With regard to grievance redressal, suitable arrangement shall be put in place by the Bank and NBFCs 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.

1.3. Other Operational Aspects:

1.3.01. The 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 Bank, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the Bank and NBFCs.

1.3.02. 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.

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

1.3.04. The Co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.

1.3.05. 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.

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

1.3.07. Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender. Further, any change in loan limit of the facility will be with the mutual consent of both the lenders (Bank/ NBFC).

1.3.08. 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.