

# **POLICY ON CO-LENDING BY BANKS AND NBFCs TO PRIORITY SECTOR**



Risk Management Department  
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<p><u>I.Introduction</u></p>	<p>Banking industry has been witnessing lot of changes and challenges in the last two decades in terms of technology, alternate delivery channels, operational environment, and new credit growth avenues leading to a shift from the conventional lending methods / products.</p> <p>Scores of Fintech entities have come in place with exclusive technologies in support of taking the banking products to the ultimate consumers.</p> <p>RBI, on 21st September 2018, vide circular no. RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19 has introduced co-origination model between Banks and NBFC- ND-SIs for providing competitive credit to priority sector. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards RBI has vide their letter dated FIDD.CO.Plan.BC.No.8 /04.09.01 /2020-21 November 05, 2020, communicated revised guidelines on “Co-Lending by Banks and NBFCs to Priority Sector”.</p> <p>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. Arrangements under this policy would be an alternate source for the growth of our retail and small value advances.</p> <p>In the light of the guidelines issued by RBI dated 5.11.2020, the “Policy for Co – lending by Banks and NBFCs to Priority sector” has been framed.</p>
<p>II.1. <u>Co-Lending Partners (CLPs)</u> and the criteria</p>	<p>The bank shall enter into Co-Lending Arrangements (CLA) with only the Co-Lending Partners (CLPs) satisfying the following criteria:</p> <ol style="list-style-type: none"> <li>a) The CLP shall be a registered NBFC/ NBFC-ND-SIs/ HFC / / Micro Finance Institution / All India Financial Institution authorized to carry on activities of lending or refinancing.</li> </ol> <p>Apart from the above</p> <ol style="list-style-type: none"> <li>b) The CLP shall be in existence for a minimum period of 3 year.</li> <li>c) The CLP shall have positive net worth.</li> <li>d) The Capital of CLP shall not be less than Rs.3 Crores.</li> <li>e) In case the CLP had been externally rated by a Credit Rating Agency, the external rating shall not be below BBB</li> <li>f) The CLP to submit a copy of its audited financial statement within 15 days from the date of finalization or publication of the same</li> </ol> <p>An enhanced due diligence exercise should be carried out on the CLPs. While engaging in Co-Lending arrangement, inter-alia, the bank/NBFC is</p>

	<p>required to adhere to extant guidelines on outsourcing of financial services issued by RBI. In March 2015 and in particular, the partner bank and NBFC shall have to put in place suitable mechanisms for <i>ex-ante</i> due diligence by the bank as the credit sanction process cannot be outsourced under the extant guidelines</p> <p>Bank shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 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.</p> <p>The CLP should communicate information regarding any regulatory action initiated by any Statutory Regulator, within 7 days from that date</p>
<p>2. Activities / segments proposed under Co- Lending Arrangement</p>	<p>The Bank may enter into tie-up with CLPs 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.</p> <p>The Bank shall not enter into tie-up with CLPs for lending to any speculative purpose.</p> <p>Banks shall not be allowed to enter into co-lending arrangement with an NBFC belonging to the promoter Group</p>
<p>III. 1. <u>Basic features of Co- Lending Arrangement (CLA)</u></p>	<p>The amount lent by the Bank to the ultimate borrower under CLA would be an advance in the Books of the Bank. Hence, the amount lent would be subject to all the regulations / restrictions applicable to such advances made by the Bank.</p> <p>Unless specifically permitted by the Bank in the CLA, the CLP shall not be entitled to include the Bank's share of lending for any purpose in their books. Specifically, the Bank's share of the advances shall not be included by the CLP while calculating Priority Sector lending achievement or for similar purposes etc.</p> <p>The priority sector assets on the bank's book should at all times be without recourse to the CLP. Further, the loans extended by foreign banks under the Co-lending framework shall be restricted only to loans qualifying as priority sector assets.</p> <p>Banks and NBFCs shall 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 / Co-Lending Agreement may be entered into between the two partner institutions which shall <i>inter-alia</i> 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</p>

	<p>responsibilities as well as customer interface and protection issues etc.</p> <p>The Master Agreement / Co-Lending Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the 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</p> <p>The Master Agreement / Co-lending 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.</p> <p>The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.</p> <p>The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.</p>
2. Sharing of the lending	<p>The share of KVB in the amount lent to the ultimate borrowers under the CLA may range from 20% to 80% as may be mutually agreed upon between the Bank and CLP. NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books The share may vary for different types/classes of loans, depending on the amount, credit rating of the borrower or any other such criteria as may be mutually agreed between the Bank and CLP.</p> <p>At any point of time CLP should not dispose / divest / transfer / assign their share of loan to any other third party at any time, without obtaining prior consent for the same from the Bank. If the Borrower is entitled to subsidy / incentives / Interest subvention either at the time of lending or subsequently, the same shall be credited in the loan account and shared as per the loan proposition of Bank and CLP.</p> <p>The Bank may retain the option to convert the Co-Lending into sole lending on circumstances that may be mutually agreed upon. However, 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.</p> <p>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 by RBI 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. 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</p>

	<p>other conditions stipulated in the guidelines for direct assignment</p> <p>The NBFC/HFC/FI 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 of the partner Bank, if any availed from them.</p>
3. Credit Criteria	<p>The Credit underwriting terms and CIBIL Score Benchmarking for sanctioning of loans under CLA shall be mutually agreed between the Bank and CLP. The detailed features of the product should be captured in the Master agreement / Co-Lending Agreement between the Bank and CLP.</p> <p>KYC verification of borrower should be in line with KYC/AML guidelines of RBI/Bank. CLP should ensure that the borrower is not in RBI Defaulters list, Wilful Defaulters List and Central fraud registry. Bank should ensure that the borrower is not in Banks Defaulters list.</p>
4. Interest on the Loan under JLA	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.
5. Sanction Decision	The Bank shall take its own independent decision regarding sanction of any proposal received through Co-lending arrangements. The Bank would not be obligated or constrained in anyway by the co lending arrangements in respect of the sanction or terms and conditions and Bank will be free to reject any application after their due diligence prior to taking in their books. Bank shall not outsource its part of credit sanction component to the NBFC.
6. Security for the advances	The Bank shall retain first charge/primary charge / paripassu charge/hypothecation charge as the case may be (movable or immovable) on the Primary security and Collateral securities that may be offered by the ultimate borrower or guarantor or any other person in connection with the loan.
7. ESCROW Account Maintenance	<p>The Bank and the NBFC shall open an escrow type common account for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float.</p> <p>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.</p> <p>Regarding loan balances, the NBFC/ Bank shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement to the customer, through appropriate sharing of required information with the Bank/ NBFC. The Master Agreement / Co-</p>

	<p>Lending Agreement shall clearly specify the manner of appropriation between the co-lenders</p> <p>Daily /Weekly/Monthly MIS to be maintained by Bank/CLP. If the Escrow account is maintained with our bank, then the operational modalities of Escrow account shall be captured in the Master agreement / Co-Lending Agreement.</p>
8. Disbursement of the Loan	<p>Loan disbursals for the respective share of the CLPs, shall be routed through common escrow account maintained, in line with the Master agreement / Co-Lending Agreement terms, for loan contributions and disbursal</p> <p>In case of any partial disbursements, as mutually decided in Master agreement / Co-Lending Agreement, the other party gives instructions to the Bank/CLP for such disbursement after obtaining the necessary documentary evidence.</p> <p>Bank will open individual loan account in the name of the Borrower in Bank's Core Banking System/Loan Origination System for Bank's Share, as the case may be.</p>
9. End use of funds	<p>The Master agreement / Co-Lending Agreement with the CLP shall specify the roles and responsibilities of the Parties in ensuring proper end-use of funds disbursed under the loan. The necessary documentary evidence of the same needs to be made available to the Bank under the Co-lending Arrangements or MIS of such details to be maintained.</p>
10. Loan documentation	<p>The Loan documentation to be executed by the ultimate Borrower / Co-borrowers / Guarantors would be mutually decided by the Bank and CLP. The Bank would have the right to modify the format / content of the loan document or stipulate additional documents as may be considered necessary by it at any time.</p> <p>Depending on the type of the loan and other factors, the Bank may agree for a single tri-partite document to be signed by the Bank, CLP and the Borrower. The format and content of the loan documents (and any variations to it thereafter) under co-lending arrangements should be approved by the Legal Department of the Bank.</p> <p>Bank and CLP shall engage a suitable legal consultant/legal firms to finalize the documentations for all the co-lending arrangements to be entered by the Bank</p>
11. Execution of the document	<p>The execution and collection of loan documents and deposit of title deeds pertaining to the loans sourced under co-lending arrangement to be handled / maintained by the Co-lending partners only.</p>
12 Registration of the document	<p>Wherever the loan documents or any other connected document or information is required to be filed / submitted / registered with any authorities, the responsibility for arranging for the same needs to be</p>

	<p>detailed in the Co-Lending Agreement between the Bank and CLP.</p> <p>In case of the failure of the CLP to carry out their responsibilities within time in this regard, the Bank may, without any prejudice to its position, cause the filing / submission / registration of such documents.</p>
13. Insurance	All securities should be sufficiently and suitably insured by CLP wherever applicable as mutually agreed between the CLPs
14. Letter of Authority	<p>If required, Letter of Authority can be executed by the Bank in favour of CLP, authorizing CLP to undertake the following on behalf of KVB:</p> <ol style="list-style-type: none"> <li>a) For execution of Mortgage Deed in favour of the Co-lenders and depositing the title deeds with CLP.</li> <li>b) Accepting the deposit of title deeds by CLP on behalf of the Bank.</li> <li>c) Lodging of the originals of the loan documents, mortgage documents and title deed documents with another third party agency, like Stock Holding Corporation etc. for preservation purpose (both digital and hard copy)</li> <li>d) Handing over of one set of scanned copy of loan documents, mortgage documents and title deed documents executed by the borrower, to the Bank within 15 days of execution of the concerned documents.</li> <li>e) Collection of monthly instalment amount from the individual borrower and remitting the dues to KVB periodically in the escrow account maintained by the CLP with the Bank.</li> </ol> <p>The Letter of Authority to be given to the CLP to undertake the above on behalf of the principal and such authority to be used only for the loans sanctioned under Co-lending arrangements between the Bank and the CLP. Group Head of PBAG is empowered to issue such Letter of Authority to the competent authority of the CLP.</p>
15. Inspection & Record	<p>The Bank shall have full rights for inspection of the primary / collateral security and the loan documents, if held with the CLP.</p> <p>Bank and CLP shall maintain complete and accurate records in relation to the transactions executed by the Bank and CLP under Co-lending arrangement. Bank shall have the right to audit the books of accounts of CLP through an auditor appointed by Bank in respect of the disbursements, the recoveries received and other charges received by CLP in respect of the shared Loan. It is specifically agreed between the Bank and CLP that the scope of audit shall be confined only to inspection of the entries and documentation in the accounts under the Co-lending programme.</p> <p>Bank officials / inspecting officials to verify all the original loan documents, title deeds and MOD for the mortgage backed loans at periodic intervals to ensure adherence of internal guidelines, terms of the agreement and extant regulatory requirements. In case of Personal Loan, Two wheeler loan, Four Wheeler loan, Gold Loan, Business loan (unsecured), Merchant Cash Advance, SME Loans, loan documents and</p>

	<p>other post disbursement documents like RC, Insurance, CERSAI (wherever applicable) to be verified for all loans.</p> <p>RBI's representatives should have right to access the Bank's/CLP documents, records and information stored by the Bank and CLP. In this regard, banks/NBFCs 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 RBI.</p> <p>Depending on the nature and tenor of the loan, the Bank may agree for that, the documents duly executed by the Borrower are retained by CLP and disposed of as per the extant guidelines and basis the Co-Lending Agreement between the Bank and CLP, after closure of the loan.</p>
16. CLP's position	<p>The Co-lending arrangements with the CLP should clearly stipulate that the CLP is not constituted as an Agent beyond the degree permitted in the Agreement. Without the specific authority of the Bank, the CLP cannot represent the Bank in any forum for any matter.</p>
17. Repayments	<p>Any repayments received from the Borrower should be parked in the collection Escrow account. In case the CLP collects the payment from the Borrower through any mode – cash, cheque, electronic transfer etc., the amount received by the CLP should be deemed to be held in trust on behalf of the Bank and CLP. The amount would not be a part of the property of the CLP. Only on appropriation of the amount as per the terms of CLA, the amount of share of the CLP out of the repayment instalment would be part of their receipt.</p> <p>The agreement for apportioning the instalment amount paid by the Borrower should be appropriately worded and should take into account the possibility of steep increase in the ROI by one party alone. The Master Agreement / Co-Lending Agreement shall clearly specify the manner of appropriation between the co-lenders</p>
18. Collection and Recovery	<p>Whenever the Borrower makes remittance in the Escrow collection and recovery account, the said amount shall be appropriated between the Bank and CLP as per the agreed sharing ratio and their proportionate share alone will be adjusted in the respective loan account.</p> <p>In case of default of repayment by the Borrower, CLP should follow up with the Borrower for recovery of overdue amount. The collection process will be as mutually agreed by the Bank and CLP.</p> <p>In case the loan becomes NPA, the Bank in consultation with CLP shall decide on all matters pertaining to the course of action to be taken for recovery. The Bank in consultation with CLP may offer one-time settlement to the Borrower on terms and conditions as deemed appropriate by the Bank.</p>



	<p>Recalling of advance shall be done by the Bank as majority stakeholder. Joint action on SARFAESI shall be carried out by the Bank after obtaining authorisation letter from CLP. SARFEASI Action can be initiated by the Bank against the Borrower as per the provisions of the SARFEASI Act. Recovery of EMI from any means will be shared as per the risk sharing basis.</p> <p>In the case of security being sold to Asset Reconstruction Cell provision should be made available enabling the bank to effect the full sale to Asset Reconstruction Cell on behalf of CLP.</p> <p>In the case of fraudulent accounts found at a later date after disbursement, as CLP is doing verification process, CLP should reimburse the Bank the entire amount disbursed with the interest thereon.</p> <p>In the case of complaints filed before the consumer forum by the borrower, if the deficiency of service on the part of the Bank/CLP is proved, then the deficiency party should indemnify accordingly.</p>
19. Provisioning and Reporting Requirement	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.
20. Right of set-off	The Bank may exercise the Right Of Set Off against any eligible assets of the Borrower / Guarantor that are with the Bank will be restricted to the Bank's portion of the loan amount outstanding. The benefit will not be available to the CLP for their portion of the loan.
21. Sharing of the losses	As the CLP is involved in the origination of the loan, it is preferable that the Master agreement / Co-Lending Agreement shall provide for the first loss up to a specified percentage or amount to devolve on the CLP only. Losses beyond this amount could be shared proportionately, as per mutually agreed terms and provisions defined in the mater agreement / Co-Lending Agreement
22. Maintenance of accounting records	<p>The Bank should obtain the account related information from CLP through Application Programme Interface /Excel /other means and to be pushed to our Loan Origination System/Loan Automated Processing System for customer creation/loan account opening/disbursement in CBS.</p> <p>The Bank should have adequate information to create and maintain the loan records of the Borrower independently from the CLP. Maintenance of accounting records shall be as per the PMLA act as amended from time to time.</p>
23. Assignment / Change in Loan Limits:	Any assignment of loans by any of the lenders can be done only with the mutual consent of both the lenders. Further, any change in loan limit of the Co-lending can be done only with the mutual consent of both the lenders.

<p>24. Grievances Redressal:</p>	<p>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, products dealt by CLP and the one offered under Co –lending arrangements.</p> <p>All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.</p> <p>The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and NBFCs therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.</p> <p>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.</p>
<p>25. Business Continuity Plan:</p>	<p>The business continuity plan of the Co-lending arrangement is to ensure continuity of critical loan operations and system management for conducting Co-lending during disaster and minimize the disruption of critical operations by putting a robust system and framework while meeting regulatory and compliance requirements.</p> <p>Business continuity plan shall adopt ownership for crisis management, business recovery and system recovery, retrieval of data / information / documents. Records being maintained by one of the CLPs, the said CLP shall individually have BCP in place with suitable strategies and recovery from the disaster. BCP is to manage the impact of significant disruptions and will endeavour to resume business and operations within a reasonable time in the event of disaster.</p> <p>The CLP agree and understand that the business continuity plans of each of the Parties are interdependent and continuity of business will depend on functioning of each of the CLPs respective business continuity plans.</p> <p>In the event of any difficulty in performing the respective obligations by the CLP as agreed under this Co-lending Agreement, CLPs shall make reasonable efforts to make alternative arrangements to ensure that the said respective obligations continue to be performed.</p> <p>It is further agreed between the Parties that, upon termination of this Agreement:</p>

	<p>i) For all Borrowers under the Co-lending program the revenue sharing and collection arrangement shall continue till the closure of the Loan.</p> <p>ii) Customer service for all Borrowers under the Co-lending arrangement shall be provided by CLP.</p> <p>iii) Further origination under Co-lending arrangement shall be stopped.</p> <p>iv) Subject to the size of the shared portfolio and NHB/RBI guidelines a buyback arrangement can be agreed between the CLP.</p>
Governance framework	<p><b>Board of Directors:</b></p> <p>The Board of Directors shall</p> <ol style="list-style-type: none"> <li>a) approve and annually review the policy on co – lending priority sector</li> <li>b) approve broader parameters / guidelines and strategic guidance for financing under co – lending arrangements</li> <li>c) assess the effectiveness of the implementation through RMCB</li> </ol> <p><b>Risk Management Committee of the Board (RMCB):</b></p> <p>This Committee is responsible for ensuring effective implementation of the policy provisions; The broad functions of the Committee are:</p> <ol style="list-style-type: none"> <li>d) Foresee future changes &amp; challenges</li> <li>e) Review the development &amp; implementation of operational guidelines and methodologies including underwriting arrangements.</li> <li>f) RMD, Chief Risk Officer along with the business verticals shall ensure adherence to the provisions of the Policy on co – lending (priority sector) approved by the Board / RMCB</li> </ol>
<u>IV. Other Operational Modalities</u>	<p>Business vertical/s shall maintain operational guidelines with regard to the Co-Lending arrangements separately.</p> <p>Half Yearly review note to be placed before the Top Management on the performance of Co-Lending arrangement by the respective Business verticals.</p> <p>MD and CEO would be the competent authority to approve the other operational modalities if any, including the commercials, interest rates with Co-Lending Partner.</p>
<u>V. Ownership &amp; Review of the policy</u>	<p>Policy shall be owned jointly by PBAG and RMD and reviewed at least annually or on the basis of guidelines issued by Reserve Bank of India from time to time.</p>

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