

ANNEXURE-I

1.	Preamble	<p>The mentioned scheme is formulated in consonance with the guidelines issued by RBI on Co-lending of loans with NBFC for priority sector lending, vide circular no. FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated 05.11.2020.</p> <p>The scheme was formed by RBI with an objective 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.</p> <p>CLM shall be on the basis of Master Agreement between Banks and NBFC's.</p>
2.	Structure of Arrangement	<p>Co-lending arrangement is through the master agreement entered with the reputed NBFCs. The terms will be decided as per agreement between Bank and NBFC. The terms of master agreement shall contain relevant policy guidelines. Bank will take its share of the individual loans on a back-to-back basis in their books. NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books.</p> <p>Bank may sign Master Agreement with multiple NBFC's and the agreement may be area, cluster, state specific or on pan India basis depending on the reach of NBFC and objective slated to achieve with the tie up.</p> <p>The Master Agreement entered into by the Bank and NBFCs for implementing the CLM may provide for the bank to either mandatorily take their share of the individual loans as originated by the NBFCs in their books, or to retain the discretion to reject certain loans after due diligence. The tie up with NBFC and execution of master agreement shall be done at HO level by Priority Credit Wing.</p> <p>Respective wings shall decide the suitable products from time to time, NBFC wise & keep Priority Credit Wing informed of the same.</p> <p>Prior approval of CAC of the Board is required for the tie up with NBFC and execution of master agreement. Priority Credit Wing shall place the note to CAC of the Board for the same. Priority Credit Wing is /designated as Nodal Wing for the scheme.</p>
3.	Eligibility Criteria of NBFC	<p>Eligibility criteria for the NBFC entering into CLM with the bank shall be as under.</p> <ol style="list-style-type: none"> a) NBFC (including HFCs) registered with RBI/NHB. b) NBFC should have minimum external rating of A and above. In respect of agri loans (irrespective of the limit) and loans under Micro Finance (up to Rs.1 lakh per individual), the minimum external rating should be BBB c) The Current book size must be at least Rs. 5000 Crore.

		<p>d) The Minimum Net Worth should be at least Rs. 100 Crore.</p> <p>e) The NBFC guilty of serious regulatory breaches or intentional fraud or facing serious reputation deterioration are not eligible.</p> <p>f) It shall be desirable that NBFC should have proven capability/technological platform for on boarding loans (end to end) under co-lending.</p> <p>CAC of the Board may be empowered to permit any further relaxation in the above eligibility criteria on a case to case basis.</p> <p>The overall exposure under Co-lending is fixed at Rs. 1000 crore. Within this overall exposure, Co-lending exposure for each NBFC is fixed at Rs. 100 crore. This may be reviewed one year after implementation of the scheme or earlier, if required. The exposure limits may be relaxed by the CAC of the Board.</p> <p>Within the above overall/per NBFC exposure, Quantum of Loan under each product identified for Co-lending shall be as per internal guidelines on Priority Sector lending norms.</p> <p>Priority Credit Wing to co-ordinate with DIT Wing, HO to make available details of Overall Exposure/Liability outstanding as on date & Per NBFC exposure/Liability outstanding as on date, in CBS. This should be updated on real-time basis so that Branches designated for this product will be readily able to decide how much exposure they can take on the NBFC, without breaching overall/per NBFC/product wise exposure ceiling.</p>
4.	Master Agreement/ Documentation	<p>Master Agreement shall be signed between Bank and NBFC regarding Co-lending. The Master Agreement shall be based on products identified by User Wings. Priority Credit Wing to take up with RL & FP Wing for drafting Master Agreement, based on product/s identified for Co-lending. The master agreement shall include the following aspects:</p> <p>a) Roles and responsibilities of Bank and NBFC/s.</p> <p>b) Non Disclosure clause to be included in the master agreement.</p> <p>c) Minimum 20% of Exposure shall be retained by NBFC in each loan products.</p> <p>d) The sales process, credit appraisal process that will be followed by NBFC/Bank.</p> <p>e) The minimum and maximum loan amount and the loan products that will be covered under the arrangement.</p> <p>f) Independent assessment of the risks and requirements of the applicant borrowers.</p> <p>g) Adherence to applicable KYC/ Due Diligence/ AML guidelines by NBFC/Bank.</p> <p>h) Outsourcing of financial services by NBFC/Bank.</p>

		<p>i) Documentation.</p> <p>j) Sharing of the credit appraisal note, KYC documents & other loan papers by NBFC.</p> <p>k) Charge creation on the asset financed or security taken on pari-passu basis in proportion to the loan amount contributed by NBFC/Bank in the particular loan.</p> <p>l) Details of the processing fees and other charges pertaining to the various loan products collected by NBFC which NBFC has to share with Bank.</p> <p>m) Appropriation of the loan repayment in proportion to the share of loan amount/regular installment from escrow account and manner of appropriation between co-lenders.</p> <p>n) The exchange of information regarding the asset classification of the loans under co-lending on quarterly basis between Bank and NBFC/s.</p> <p>o) Provision for providing unified Loan Statement to customers by NBFC.</p> <p>p) Reporting to Credit Information companies under respective applicable law and regulations.</p> <p>q) The recovery action in case of default.</p> <p>r) Assignment /Change in loan limits.</p> <p>s) Business continuity plan for both NBFC/Bank.</p> <p>t) Grievances redressal mechanism and sharing of complaints registered by borrower against bank/NBFC.</p> <p>u) Reconciliation of Escrow account with distribution of cash flows and individual co-borrower accounts, on T + 1 basis. Disbursement Escrow account to have “NIL” balance as at end of each day.</p> <p>v) 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>w) Framework for monitoring and recovery of the loan.</p> <p>x) Audit certification by an external party covering the following aspects: <ul style="list-style-type: none"> • Disbursements and recovery in the escrow accounts, distribution thereof between the Bank and NBFC are as per the agreed terms. • Reconciliation of the outstanding loan accounts balances with the cash flows and distribution thereof are as per escrow accounts </p> <p>y) Appropriate Clause for Dispute Resolution to be included in the Master Agreement.</p>
5.	Eligible Loan Products	<p>Only term loans with repayment period of greater than 12 months shall be covered under the CLM scheme. Respective credit wings i.e. PCW/RAW/MSME/Gold Wing shall identify the loan products that may be covered under the co-lending scheme with due permission from ED overseeing the respective wings. Priority Credit Wing to be kept informed of the same.</p>

6.	Appraisal	<p>There are two methods of lending under CLM. The appraisal under these methods shall be as under:</p> <p>Method 1:</p> <p>As per master agreement if Bank agrees to a prior, irrevocable commitment to take into books its share of individual loans as originated by the NBFC, such individual loans shall fulfill all the pre-specified criteria like eligibility of the borrowers, loan quantum, tenor etc as negotiated with NBFC. Accordingly, Bank and NBFC shall put in place suitable mechanisms for ex-ante due diligence by the Bank. Product wise business rule engine has to be decided and Bank shall take its share only in those loans which satisfy all the parameters of the business rule engine.</p> <p>In the above case, NBFC shall conduct necessary “Know Your Customer” (KYC) checks KYC and customer due diligence. The bank shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.</p> <p>Method 2:</p> <p>If Bank retains the right to exercise its discretion regarding taking into books the loans originated by NBFC, Bank has to do all the KYC & Due Diligence exercise as per extant guidelines through designated branches.</p> <p>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.</p>
7.	Interest Rate	<p>Bank will price its part of exposure in a manner found fit as per the Bank’s risk appetite and assessment of the borrower. 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.</p>
8.	Loan Origination and Sourcing	<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.</p>
9.	Delegation of Powers	<p>CAC of the Board shall permit tie up with NBFC and execution of master agreement. Priority Credit Wing shall place the note to CAC of the Board for the same. CAC of the Board may also permit relaxations as per point no. 3, on case to case basis.</p>

		<p>Method 1 of Co-lending: If master agreement entails a prior, irrevocable commitment on the part of the Bank to take into books its share of individual loans as originated by the NBFC, the user wing shall finalize the loan wise business rule engine (ex-ante due diligence) with NBFC like eligibility of the borrowers, loan quantum, tenor etc. Bank shall take its share of loans only which are within the negotiated business rule engine. While finalizing the business rule engine, wing has to ensure the compliance of existing credit policy guidelines and delegation of powers.</p> <p>Individual loans sanctioned under this method shall be assigned to branch/es as decided by the user wing. Detailed SOP in this regard will be issued separately.</p> <p>Method 2 of Co-lending: If under master agreement, Bank retains the right to exercise its discretion regarding taking into books the loans originated by NBFC, respective user wing shall instruct the Circle Head/s to designate the branches/ RAH/SME Sulabh which shall be allowed to process and sanction proposals sourced under CLM in respect of agreements where Bank retains the discretion to reject certain loans after due diligence. Designated branches shall sanction individual loans upto their delegated powers and for the proposals beyond their delegated powers have to be placed to higher authorities as per extant guidelines of respective loan products.</p>
10.	Escrow Mechanism	<p>The co-lending banks and NBFCs 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.</p> <p>Circle will designate one or more Branches/RAH/SME Sulabh to handle Co-lending Loan Products with identified NBFC's. Designated Branches shall maintain one Disbursement Escrow Account & one Collection Escrow Account for each NBFC. This will be a No-lien account without any cheque book facility. Operations in this account will be as detailed in the Master Agreement entered into with each NBFC.</p> <p>It is to be ensured that the Balance in Disbursement Escrow Account at the end of each day is "NIL".</p> <p>All loan repayments/ pre-payments/ interest recovery/ recovery of other charges from borrowers will be routed through the Collection Escrow Account only, without holding the funds for usage of float. Reconciliation of this account will be done on T+1 basis.</p> <p>The NBFC and Bank shall maintain individual borrower's accounts for their respective share. The NBFC should be able to generate a single unified statement of the customer, through appropriate sharing of required information and IT coordination with the Bank. All loan accounts to be parked at the Designated Branch/es/ business units in the Circle.</p>

11.	Repayment/ Recovery	The repayment/recovery of interest shall be shared between the Bank and the NBFC in proportion to their share of credit and interest. The operating expenses of NBFCs for sourcing follow up and recoveries of the Bank's share of the co-lending loans will be negotiated with the NBFCs depending upon the type of the loan. The same shall be included in the Master Agreement.
12.	Monitoring of Loans	NBFC will be primarily responsible for monitoring of loans. Bank & NBFC shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
13.	Grievance Redressal	NBFC 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 and/or Bank will also be shared with the Bank/ NBFC and in case. 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.
14.	Business Continuity Plan	Both the banks 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.
15.	Other Guidelines	<ul style="list-style-type: none"> • 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. • Bank/NBFC will not be alienating the loan in any form or manner, except under circumstances requiring transfer/assignment to ARC's. • Bank & NBFC shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for their respective share of the loan account. • Banks shall not be allowed to enter into co-lending arrangement with NBFC which is a group entity of our Bank.

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