Policy on Co-Lending

by Banks and NBFCs/HFCs 2023 - 24

Policy on Co-Lending

(Priority/ Non-Priority Sector)

I. Co-Lending Model (CLM): -

“**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.

I.1. Background

I.1.1. RBI had issued guidelines on Co-origination of loans by Bank and NBFCs for lending to priority sector vide notification RBI/2018-19/49 FIDD.CO.Plan.BC .08/ 04.09.01/ 2018-19 dated 21st September 2018. It was envisaged that the benefit of low cost funds from Banks and lower cost of operations of NBFC would be passed on to the borrower through adoption of the blended rate/weighted average rate method. This arrangement was made mainly to entail joint contribution of credit at the facility level by both the lenders as also sharing risks and rewards.

I.1.2. Based on the feedback received from the stakeholders and to better leverage the respective comparative advantages of the Banks and NBFC/HFCs in a collaborative effort, RBI has decided to provide greater operational flexibility to the lending institutions, while requiring “ them to conform to the regulatory guidelines on outsourcing, KYC, etc.,nw6

I.1.3. Accordingly, RBI has revised the scheme and rechristened as “Co-Lending Model” (CLM) vide notification RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/ 04.09.01/2020-21 dated 05.11.2020 to improve the credit flow 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 NBFC/HFCs.

I.2. Need for Co-Lending and benefits associated: -

I.2.1. NBFCs play a significant role in promoting inclusive growth in the country by catering to the diverse financial needs of bank excluded customers. India's large un-organized markets create a huge demand for unsecured as well as secured credit. In geographical areas where banks do not have sufficient reach, NBFCs fill this gap. Their contribution in deposit mobilization and credit extension can hardly be over-emphasized. Focusing on funding sectors where there is a credit gap, the core strengths of NBFCs lie in their strong customer relationships, large “feet on street” (FOS) work force understanding of regional dynamics, well-developed recovery systems, low cost of operation, personalized services and fast decision making.

I.2.2. Generally, NBFCs focus on segments neglected by Bank; non- salaried professionals, individuals, traders, transporters etc. These institutions are also instrumental in generating substantial economic activity and therefore employment in this field

I.2.3. In today‟s time NBFC with Fintech collaboration has been able to build a lean credit delivery mechanism. They have introduced innovative products such as second- hand vehicles financing, small personal loans, three-wheeler financing, IPO financing, finance for tyres and fuel, AMC, and insurance advisory etc.

I.2.4. RBI has prescribed regulatory target for Banks for extending finance under priority sector. Any lending through CLM will add to priority sector advances of the Bank, thus adding a new avenue for catering to needs of entity covered under priority sector finance.

I.3. Review/Validity and Ownership of the Policy: -

I.3.1. This document termed as “Policy on Co-lending by Bank and NBFC/HFCs to Priority Sector and Non-Priority Sector” codifies the policy and the procedure involved in the co-lending transactions.

I.3.2. This policy has been made in compliance with all RBI and extant regulatory guidelines issued till date. The guidelines enumerated in the policy are applicable for all branches/offices and its operations.

I.3.3. **Ownership**: The Policy dealing with Co-Lending has been made in compliance to RBI direction. It‟s a “specific products” to give boost to priority sector lending. The Policy shall be modified to give effect to the changes in the extant guidelines / directives / instructions that may be advised by the Government of India / Reserve Bank of India (RBI) / IBA / Other statutory and regulatory bodies from time to time for which action may be called for at a short notice.

I.3.4. For this to adapt to the regulatory /statutory change in this products, RMCE will be the competent authority to approve the same and will be placed before the Board for information. Any operational part with regard to this policy shall be dealt by respective Region/HUB of which assets are being under transaction.

I.3.5. **Validity**:- The policy will be a part of our existing Loan Policy Guidelines and will be reviewed at least once in a year or, if so felt at earlier intervals, by the Board. The Risk Management Department will ensure and help to conduct of such review. The Policy in force approved by the Board as modified from time to time shall however continue to remain in force, till the same is reviewed as aforesaid.

II. Policy on Co-lending by Bank to Priority Sector: -

II.1. Norms & Guidelines: -

II.1.1. As per RBI direction, Bank shall formulate a Board approved policy for entering into CLM and place the approved policy on the Bank's website. Based on the approved policy, a Master agreement shall be entered into between the two partner institutions (Bank and NBFC/HFC) 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.

II.1.2. In terms of Co-lending guidelines, bank have two options under the co-lending mechanism as under: -

Option 1: There will be a prior irrevocable commitment on the part of the Bank to mandatorily take its share of the individual loans in its books originated and sanctioned by the NBFC. For this, an ex-ante due diligence process/ parameters need to be put in place beforehand, which will be recorded in the Master Agreement. The process under this Option 1 will be done through Rule engine (mechanism not involving manual intervention).

Option 2: Bank can exercise its discretion to take or reject its share of loans originated and sanctioned by NBFC subject to Bank's due diligence. If the Bank exercises its discretion, the arrangement will be akin to a Direct Assignment (DA) transaction for which Minimum Holding Period (MHP) will not be applicable, in terms of Co-lending model guidelines of RBI.

II.1.3. All loan products which are processed through digital cum physical assist mode exercising proper due diligence, will be covered under the discretionary option. For the purpose of due diligence, the product parameters for such loans will be crystallized beforehand, recorded in the Master Agreement and would be covered under the Direct Assignment (DA) route.

II.1.4. In terms of the CLM, the banks are permitted to Co-lend with all registered NBFC (including HFCs) based on a prior agreement. The co-lending bank will take its share of the individual loans on a back-to-back basis in their books.

However, NBFC/HFCs shall be required to retain a minimum of 20% share of the individual loans in their books.

II.1.5. The banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

II.2. Eligible Entities for Co-Lending: -

II.2.1. CLM is applicable to all Scheduled Commercial Banks (excluding Regional Rural Banks, Urban Co-operative Bank, Small Finance Banks and Local Area banks) and all registered NBFCs (including HFCs) for providing competitive credit to priority sector. An application form will be designed for taking maximum details from NBFC/HFC desirous of having CLM with our Bank.

II.2.2. In terms of the CLM, the banks are permitted to co-lend with all the registered NBFCs including HFCs based on a prior agreement. However, **Banks are not allowed to enter into Co-lending agreement with an NBFC/HFC belonging to the promoter group.**

II.2.3. The Master Agreement shall be entered into by the bank and NBFC/HFCs for implementing the CLM may provide either for the bank to mandatorily take their share of the individual loans as originated by the NBFC/HFC in their books or retain the discretion to reject certain loans subject to its due diligence. The bank will take share of the individual loans on a back-to-back basis in the 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/HFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Bank issued vide RBI/201415/497/DBR.No.BP.BC. 76 /21.04. 158/2014-15 dated March 11, 2015 and updated from time to time. In particular, the partner bank and NBFC/HFC 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. 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.

b.1. Accordingly, the sourcing of the loan / KYC is to be done by NBFC. NBFC shall adhere to applicable KYC / Anti-Money Laundering (AML) guidelines as per extant norms in respective organization as prescribed by Department of Banking Regulation / Department of Non-Banking Regulation. As per RBI direction (Para 14 of Master Direction of KYC vide Master Direction DBR.AML.BC. No.81/14.01.001/2015-16 updated 29 May, 2019), for the purpose of verifying the identity of customers at the time of commencement of an account-based relationship Bank may at their option, rely on customer due diligence done by a third party (here NBFC), subject to the following conditions to be ensured by NBFC.

b.2. Records or the information of the customer due diligence carried out by the third party i.e. NBFC is to be provided to Bank within two days by NBFC or from the Central KYC Records Registry.

b.3. Adequate steps are taken by NBFC 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 NBFC upon request without delay.

b.4.The NBFC 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.

b.5.The NBFC shall not be based in a country or jurisdiction assessed as high risk.

b.6. The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the NBFC.

b.7.Undertaking in the aforesaid regard will be taken from NBFC at the time of tie-up arrangement as mutually agreed between NBFC and Bank.

b.8.Our Bank shall share products, prescribed minimum threshold viz. CIBIL etc. (or other CICs equivalent score if any) with NBFC in order to align their customer identification with our Bank.

b.9.In addition to the aforesaid guidelines of this para our Bank officials will also carry out KYC/Due diligence of the borrower.

c. However, 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, 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.

d. The MHP exemption shall be available only in cases where the prior agreement between the banks and NBFC/HFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

II.2.4.Though RBI has not mandated any specific criteria to be fulfilled by NBFC/HFC (eligible for -CLM as defined by RBI), for engagement with NBFC/HFC, our Bank will enter into CLM with NBFCs/HFC who fulfils the following criteria: -

a. NBFCs/HFCs should be registered with RBI and should already be complying with the prudential norms of RBI.

b. NBFCs/HFCs should be in operation for more than 4 years.

c. The Net Worth of the NBFC/HFC should be more than Rs.100.00 crore..

d. In preceding two years Net NPA should be below 2.00% and Gross NPA below 4.00% in each year.

e. Minimum Capital to Risk Weighted Asset Ratio (CRAR) of NBFC/HFC should be 15%.

f. CLM will be entered with only those NBFCs/HFCs which are rated A (Long Term Rating) and above and the rating should not be more than one-year-old as on the date of CLM.

g.Co-Lending will be entered with only those NBFCs/HFCs whose Collection Efficiency ratio is 95% and above.

h.Since CLM is a tie-up arrangement with a NBFC/HFC, in view of the same copy of our present Co-lending policy and list of schemes / products may be shared with that NBFC/HFC.

II.3. Parameters to be considered: -

While entering into any CLM with NBFC/HFC, NBFC/HFC has to ensure that following parameters are compiled by them

II.3.1. Policies, Processes and Systems – Policies such as Credit Policy, Collateral Management Policy that drive the underwriting and disbursal standards in NBFC/HFC should be well documented. Systems should in place to ensure compliance with the policies, use of technology to track loans and repayment, recoveries, asset values etc., should be in place.

II.3.2. Risk Management – The risk management, sanctioning and underwriting practices (including asset specific practices), write-off and provisioning norms in NBFC/HFC should be in place.

II.3.3. Management and Governance / Business Continuity Plan – The technical and management experience of key personnel of NBFCs/HFC, the ownership of the NBFC/HFC, presence of independent directors, level of corporate governance, robust Business Continuity Plan in NBFC/HFC needs to be in place

II.4. Financial parameters: -

Also on financial front, Bank (the concerned business branches) will consider analysis of the Financial Performance of the NBFC/HFC on the following parameters

- Capital – Sources of capital, Tier I and Tier II capital, Capital Adequacy.
- Earnings – Net Interest Income, Profitability, Cost of Funds and Return on Assets, Non Interest, Income, Provisioning level.
- Assets – Types of Assets, Growth, and Asset Quality measures such as NPA ratios, delinquency profile, and incremental growth in NPA.
- Liabilities – Sources of Funds, Asset-Liability Gap Risks, CASA in case of Banks

II.5. Loans under Co-Lending: -

II.5.1. Loan under CLM to be provided to Individuals/Proprietorship concerns, Partnership firms, Private Limited Companies, closely held Public Ltd Companies (not listed on any stock exchange), are eligible borrowers having quantum from **Rs 0.01 crore to Rs 2.00 crore (our bank share)** qualifying under priority sector. While approving tie-up with NBFC/HFC, the range of quantum of loan to be mentioned. Any lower / higher quantum of the loan if any, from a particular NBFC/HFC Co-lending agreement needs to be approved by MD & CEO.

II.5.2. Only following types of “Term Loans” eligible to be classified as priority sector will be provided under CLM.

- MSME
- Housing Loan (emphasis on Affordable housing loans)
- Retail Loan (Other than housing loan as given above).
- Agriculture loan
- Other priority sector loan.

II.3.3. Under these guidelines, following loan even if covered under priority sector will not be eligible

- Revolving credit facilities (e.g. Cash Credit accounts, Credit Card etc.)
- Other facilities viz. Overdraft (OD), Packing credit / Post shipment, Non Fund Based and Foreign currency loans etc

II.3.4. The borrowers under this segment can be given fresh loan separately from the Bank or NBFC/HFC by assessing the proposal on merits. However, fresh loan cannot be given during the currency of the loan already sanctioned under CLM, in other words the fresh loan for same asset/ against same asset can’t be given again.

II.6.Customer related issues: -

II.6.1. 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 NBFC/HFCs and bank.

II.6.2. All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.

II.6.3. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and NBFC/HFCs therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

II.6.4. The NBFC/HFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.

II.6.5. 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/HFC within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFC/HFCs or the Customer Education and Protection Cell (CEPC) in RBI.

II.7. Interest rates and Chargeability: -

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.

The Interest rate applicable to borrowers under CLM arrangement shall be linked to Card rate or rate negotiated with NBFC. However, the interest rate shall not be below EBLR/MCLR based on the category of advance.

II.8. Sharing of Risks and Rewards: -

Minimum 20% of the credit risk by way of direct exposure shall be on NBFC's/HFC's books till maturity and the balance will be on Bank's books. Considering the 20% minimum skin-in-the-game, the key consideration for the NBFCs/HFCs will be the fact that there is no seasoning requirement in case of lending. The NBFCs/HFCs shall give an undertaking that its contribution towards the loan amount is not funded out of borrowing from Our Bank or any other group company / subsidiary of our Bank. Source of contribution towards co-lending shall be disclosed to the Bank before sanction with proper evidence. Simultaneously Bank will also explore the possibility of obtaining CA certificate from a CA as mutually agreed between NBFC/HFC and Bank to this effect.

II.9. Priority Sector Status: -

The Bank will claim priority sector status in respect of our share of credit while engaging in the co-lending arrangement. However, the priority sector assets on Bank's books should at all times be without recourse to the NBFC.

II.10. Margin: -

Margin as stipulated by our bank in different schemes like housing loan/MSME loan etc., need to be followed by NBFC/HFC also for their share of minimum 20% of the loan amount to order to maintain uniformity in appraisal and assessment.

II.11. Common Account / Management Information System: -

II.11.1. As per RBI defined mechanism 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.

a. Borrower will be offered a single account to be maintained in core lending solution of NFBC. This particular account is to be used as "Touch Point" of the customer in NBFC. This account will be just reflection (shadow) of the loan accounts being maintained at individually at NBFC/Bank. The transaction in the shadow account will be updated based on the sanction/disbursement/collection data shared by Bank with NBFC or individually on maximum T+2 basis. All information of this account is not to be reported to CICs as its just dummy in nature and a reflection of the collective data of Bank/NBFC.

b. Bank and NBFC will be maintaining respective individual account (their own share) in their core banking/lending solutions. This account will use as monitoring purpose only. This account will be reported to CICs respectively by Bank/NBFC as per set mechanism. NBFC to make borrower aware of this mechanism at the time of conveying sanction to borrower.

c. In our core banking solution account originated through co-lending will be tagged (Code will be created NFBC wise).

d. Information Technology Department in co-ordination with the selected branches and respective NBFC to finalize the logic and data sharing modalities in form of Application Program Interface (API) or any other mechanism in compliance to norms of the bank duly protecting bank data and privacy right.

II.12.Other Operational Aspects: -

II.12.1. Bank and NBFC/HFCs shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFC/HFCs 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.

II.12.2. 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.

II.12.3. The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.

II.12.4. 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.

II.12.5. The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and NBFC/HFCs to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements. Audit and Inspection, CO to incorporate appropriate aspects in scope of Concurrent Audit and Internal Audit for carrying out Audit of loans under Co-lending.

II.12.6. Any assignment of a loan by a co-lender to a third party shall be done only with the consent of the other lender.

II.12.7. Both the banks and the NBFC/HFCs 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.

II.12.8. Further at the time of submission of proposal/application to our Bank by NBFC after their sanction/in-principal approval, it is to be specified by the NBFC/HFC that the proposed loan/s was not rejected by the Bank (under co-lending tie up with the subject NBFC &other Bank) or NBFC itself earlier.

II.12.9. **Exit Clause**: In case either Bank or NBFC/HFC wants to exit the agreement (only for new business), 30 days' prior notice should be served to the other party.

II.12.10.CERSAI Registration (if applicable) will be done by NBFC/ HFC. NBFC/ HFC shall share the CERSAI ID print out with the Designated branch who will ensure that CERSAI asset ID and date of mortgage are entered in CBS.

II.12.11.CGTMSE cover (if applicable) is to be obtained by the NBFC/ HFC for entire loan amount and Branch to ensure marking the appropriate CGTMSE flag as "YES/NO" in individual borrower account. A certificate that all eligible loans have been covered under CGTMSE is to be submitted every quarter by the auditor of the NBFC/ HFC.

II.12.12.Interest subvention if any applicable, shall be claimed by the NBFC/ HFC concerned and the claim amount is to be shared in the ratio of loan sanctioned by the NBFC/ HFC and Bank. The subvention amount has to be credited to the Collection Account and from there it is to be credited to the borrowers account in respective lending ratios between Bank and NBFC/ HFC.

II.12.13. Risk Management Department will adopt a mechanism of grading the borrowers under co-lending.

II.13.Monitoring of end-use of loan: -

NBFC shall obtain a certification on "**End-use of loan**" loan which will be shared with the Bank for record-keeping. The same is to be supported by statement of a/c reflecting payment to supplier envisage during sanction of loan and tax invoice issued by the said supplier. If any instance is noticed that funds are used for the transactions not related to the business of the borrower for which Term Loan is allowed to the borrower, the NBFC to recall the credit facility.

II.14. Monitoring & Recovery: -

II.14.1. Annual review of the portfolio of NBFC/HFCs shall be undertaken by respective branches based on the sectoral exposure before extending any fresh or additional lending.

II.14.2. RBI has mandated to create a framework for day to day monitoring and recovery of the loan as per mutually agreed terms. In view of the same we hereby propose following modalities.

a. NBFCs/HFCs shall ensure that their Board approved policy for Recovery is in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision.

b. The data of our share in co-lending will be available with us and as all the parameters will be equivalent to the individual account being maintained at NBFC, and sign of stress in the account will also exist in the account of the NBFC also and subsequently being reflected in dummy account being maintained for customer interface also.

c. The bank will monitor on an ongoing basis and in timely manner performance of the borrower (our share). An alert will be given to NBFC in case of any delinquency observed to contact the borrower for repayment of dues etc. A mechanism will be developed by Information Technology Department wherein in case of stress in the individual account a letter/alert is generated in addressed to respective NBFC for the overdue/stress in the account. An independent follow up may also be made by the Bank for recovery of dues.

d. The monthly feedback report from the NBFC shall provide such information to facilitate timely detection of signs of weaknesses in individual accounts and identification of nonperforming borrowers. The report shall provide exposure type, the percentage of loans in more than 30/60/90 days past due etc. NBFC will share this report respective branches for a class of asset, branches will share the same with Recovery Department for onward information.

e. Depending upon the size of the portfolio, credit monitoring procedures with suitable modification as suggested by Bank from time to time may include verification of the information submitted by borrower to NBFC by the bank’s concurrent or internal auditors. The agreement with the originator shall provide for such verifications by the auditors of the bank. All relevant information and audit reports should be available for verification by the officials of Banks.

f. In case of any restructuring of the loan during standard / NPA category, the same shall be approved as per extant guidelines on delegation for restructuring.

II.15. Exposure Ceiling: -

The maximum cap fixed for any NBFC under this arrangement is fixed at Rs.300.00 crore for AAA & AA above rated NBFCs and Rs.100.00 crore for A rated NBFCs. At any point of time, the aggregate outstanding loans should not exceed the limit fixed. However, based on the balance sheet size, market coverage, past track records, higher outlay with any particular NBFC may be considered. Any deviation in this regard should be placed before Board for approval

II.16. Delegation of Powers: -

II.16.1. Loan under CLM is to be sanctioned by respective delegate as per Policy on Delegation of Lending Powers.

However, for engagement of particular NBFC/HFC for CLM, the delegation shall vest with Board. Any agreement for engagement of NBFC/HFC to be made in line with this policy will be vetted by Law Department

II.14.2. The Managing Director & CEO is the competent authority for signing the tie-ups, signing of agreements with NBFCs/HFCs etc after following the due processes.

II.14.3. The concept of co-lending is new for entire banking industry. In view of ever changing and varied requirement of NBFCs/HFCs, some relaxations/ deviation may be required for a particular tie-up with a particular NBFC for co-lending. To have flexibility in any decision making any deviation (relaxation) to the norms for co-lending can be approved by MD & CEO.

II.17. Collection & Recovery through Escrow Account: -

- Monitoring and recovery will be done by the NBFC/ HFC.
- Recovery effected will be credited the same day by NBFC to the Collection account with the Bank. Under special exigencies, NBFC can credit maximum on a T+1 basis.
- NBFC shall share the MIS giving details of individual account numbers and amount to be credited as per mutually agreed terms.
- Credit from current account, to individual loan accounts will normally be afforded the same day or with value date on T+1 basis from the date of deposit by NBFC in current Account.
- The recovered amount will be credited into the individual loan accounts of the borrowers maintained with the Bank & NBFC‟s share of recovered amount will be credited accordingly as per the agreed terms.
- Close monitoring of Collection Account to be done by the Designated Branch to ensure that these accounts are reconciled on daily/ periodical basis.

- An oversight of these accounts will be done by the respective credit branches to ensure that the payments are adjusted on T+1 basis (with value date)

II.18. NPA Management: -

II.18.1. As permitted under Co-lending, Banks and NBFCs can adhere to the asset classification and provisioning requirements as per the respective regulatory guidelines applicable to each of them.

II.18.2. Designated Branch/Department will identify the overdue accounts as per Bank's present IRAC status and advise the NBFC to follow up and make recoveries for regularizing these overdue accounts.

II.18.3. Initiate following steps, once an individual loan account is classified as NPA as per the IRAC norms of the Bank:

- Check the correctness of Principal outstanding and status of application of interest and also status of A/c with NBFC.
- Obtain monthly follow up report from NBFC stating reason for NPA and status of action taken thereof.
- Conduct monthly meeting with Collection/Recovery team of NBFC.
- Overall responsibility for control and monitoring of these Co-lent loans, maintaining asset quality shall remain with respective selected branches.
- In case loan outstanding in NPA account is up to Rs.20.00 lakh, designated branch/department has to initiate action and serve notice under SARFAESI Act (wherever applicable) as per Bank's extant guidelines (for any clarity services of Legal Department to be obtained).
- In case of loan outstanding is above Rs 20 lakh, action under SARFAESI Act (wherever applicable) will be initiated by NBFC. Branch to obtain the copies of 13 (2), 13 (4) and other related papers from the Co-lender within 15 days from date of initiation of action in NPA account.

II.18.4. Under no circumstances NBFC can unilaterally enter into compromise/ settlement or write off process in respect of co-lent loans including his own share. In respect of NPA accounts where recovery aspect is bleak, only Bank can initiate such process as per Bank's extant guidelines with the help of NBFCs.

II.19. General Guidelines on KYC & Account Opening: -

a) For opening of loan account, CIF number is to be generated.
b) KYC Guidelines in terms of RBI circular no 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 should be adhered by bank and NBFC.
c) The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the Bank as the Regulated Entity (RE).

d) The NBFCs will need to share the KYC documents with the Bank along with CKYC details wherever applicable/available.
e) To facilitate account opening NBFC can also use video KYC functionalities whenever the facility is made available.
f) Reconciliation of Bank Accounts: NBFC should reconcile its mirror account(s) with Bank account(s) on a monthly basis and reconciliation statement should be submitted to the Designated Branch. Appropriate action should be taken to reconcile the account(s) if there is a difference. An overall monitoring of reconciliation of these accounts will be done by respective selected branches.

II.20. Checklist for compliance in case of Property is taken as security: -

a) NBFC has to confirm that there is no prior encumbrance on the property proposed to be mortgaged through CERSAI search.
b) In case of all loans, where SARFAESI compliant property taken as primary/collateral security, only those accounts will be accepted for appraisal where NBFC has ensured meticulous compliance of the procedure on Bank's prescribed format.
c) Valuation of security shall be as per extant guidelines.
d) Equitable/Registered Mortgage of the property has been done by NBFC.
e) If any fraud angle is suspected, NBFC to be advised to go for Property verification, obtention of Nil EC and Title search/ verification report immediately.

II.21. Selected Branches for Co-Lending: -

II.21.1. In order to have seamless operations of specialized activity under Co-lending, a dedicated selected branches for Processing & Sanctioning of Loans is to be setup by the Bank. The selected branches will be approved by MD & CEO.

II.21.2. The NBFCs under the Co-Lending Model (CLM) sources the loan proposals from all locations in India and forwards to the Bank from their Centralized Location. On behalf of the Bank, the selected branches shall undertake Loan Proposals Acceptance, Disbursement, Monitoring and Reconciliation.

II.21.3. The selected branches shall be headed by Chief Manager/ Assistant General Manager for having focused approach on growth of business under CLM.

III. Policy on Co-lending by Bank to Non-Priority Sector: -

The guidelines for "**Co-Lending by Banks & NBFCs / HFCs to Non-Priority Sector**" are as under.

1. Bank shall undertake financing under the co-lending model for the non-priority sector, in compliance with extant policy guidelines on Co-Lending by Banks & NBFCs / HFCs to Priority Sector.

2. The financing facility shall be subject to compliance of all extant prudential regulations including transfer of loan exposures, outsourcing of financial services, KYC, reporting to CICs etc as applicable to all the participating entities.

3. For financing under co-lending model for non-priority sector, the Minimum Holding period as defined in extant policy on transfer of loan exposures and securitisation of standard assets shall be applicable.

4. The minimum holding period is detailed below

   The transferor can transfer loans only after a Minimum Holding Period (MHP) which is counted from the date of registration of the underlying security interest with Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) as under: -

   - Three months in case of loans with tenor of up to 2 years;
   - Six months in case of loans with tenor of more than 2 years.

   Provided that in case of loans where security does not exist or security cannot be registered with CERSAI, the MHP shall be calculated from the date of first repayment of the loan.

   Provided further that in case of transfer of project loans, the MHP shall be calculated from the date of commencement of commercial operations of the project being financed.

   Provided further that in case of loans acquired from other entities by a transferor, such loans cannot be transferred before completion of six months from the date on which the loan was taken into the books of the transferor.

5. The maximum value of single asset (loans in the name of obligor) under Nonpriority category shall be as follows: -

Particulars	**Value* (Max. Loan quantum of Single Asset)**
Housing Loan	Rs 10.00 Crore
Loans against Property- LAP (including those categorized under MSME)	Rs 5.00 Crore
Other Retail Loan	Rs 5.00 Crore
MSME Advances (excluding LAP categorized under MSME)	Rs 5.00 Crore (Classification as per extant guidelines)
Other Loan	No Maximum Fixed Value

*Value shall mean outstanding amount in the books of the originator at time of cut-off date.

*Further, it shall be ensured that loans in the name of the obligor shall be restricted to 5% of the total value of the pool.

6. **Education Loan**: For education loan under Co-Lending Model, the guidelines enumerated above shall be applicable. In case of Education Loan, where the security doesn't exist or security cannot be registered with CERSAI, the Minimum Holding Period (MHP) shall be calculated from the date of first repayment of interest of the loan