बैंक ऑफ़ इंडिया
Bank of India BOI

Policy on Co – Lending of Priority Sector loans with NBFCs under Co Lending Model (CLM)

1. Introduction:

1.1 Reserve Bank of India under its circular no RBI/2020-21/63, FIDD.Co.Plan.BC.No.8/04.09.01/2020-21 dated 5th November 2020 has permitted Banks to Co-Lend with all registered NBFCs (including HFCs) based on prior agreement.

1.2 NBFCs (including HFCs) have acquired niche in providing loans to hitherto new to credit customers in RAM sector and have in place, IT enabled tech platform that facilitate end to end loan life cycle management. Apart from the same, NBFCs (including HFCs) are nimble footed and have acquired expertise over the years in originating and underwriting credit in shortest possible time. Universal banks like our Bank need to leverage the expertise of NBFCs (including HFCs) to build RAM portfolio.

1.3 As a part of strategy to build quality RAM portfolio Co-Lending Model (CLM) fits the bill and accordingly this policy on CLM is commended.

2. Objectives of the Policy:

2.1 This CLM policy aims at dovetailing to the existing RAM strategy loans origination through co-lending with NBFCs (including HFCs) and the objectives are:

(i) To achieve quality/portfolio of small to medium ticket loans in Bank's RAM portfolio by leveraging expertise of NBFCs (including HFCs).

(ii) To leverage the large presence of NBFCs (including HFCs) in credit markets by partnering with them and availing their services in improving credit underwriting standards and collections efficiency.

(iii) To surmount bottlenecks in traditional financial intermediation through effective use of skill sets in NBFCs (including HFCs) and improve margins.

3. Core principles of CLM Policy:

3.1 CLM will be implemented through a contractual arrangement under MASTER AGREEMENT with select NBFCs (including HFCs).

3.2 CLM between our Bank and select NBFCs (including HFCs) will have all essential features of Annex to RBI circular dated 5th November, 2020 cited herein above. All the guidelines/circulars/instructions of RBI for the time being in force on CLM and as modified/revised from time to time shall apply to CLM arrangements of Bank as if specifically incorporated in this policy.

3.3 Bank shall not enter into CLM arrangement with NBFCs (including HFCs) belonging to promoter Group.

4. Criteria for selection of NBFCs (including HFCs) for CLM:

4.1 NBFCs (including HFCs) should be registered with Reserve Bank of India and should have demonstrated satisfactory track record in its business.

4.2 NBFCs ought to have track record of profitability for 3 years out of 5 years as on the date of entering into the arrangement with the Bank under CLM.

4.3 NBFCs considered for CLM arrangement ought to have investment grade rating as on the date of entering into arrangement.

4.4 NBFCs registered as Core Investment Companies will not be considered for CLM arrangement.

5. Policy governing CLM arrangement:

5.1 Master Agreement shall cover the following areas:

a) Policies/processes and systems in place for NBFC (including HFC) under co-lending.

b) Procedure for co-lending including receipt of application from borrower, due diligence method, underwriting standards including without limitation, minimum credit score below which borrower cannot be on boarded, details of insta data such as credit history, surrogate data and other data points that would be examined as part of accepting a borrower and such other borrower onboarding criteria in detail in line with extant credit policy of the Bank.

c) Nature of Loans/Facilities that will be offered under CLM arrangement.

d) Risk Management: The Risk management, underwriting practices, provisioning norms etc are in place. There should be a subcommittee of the Board looking after & responsible for implementation of robust risk management practices.

e) Management/Governance Policies: The technical and management experience of key personnel of NBFCs, the ownership of the NBFC, presence of independent directors, level of corporate governance, robust business continuity plan needs to be in place.

f) All areas covered in detail under para 6 to 11herein along with SOPs and process flow in schedule I & II.

6. Loans under Co Lending:

6.1 Facility: As per the approved policy Working Capital, Term Loan and Non fund based limits are eligible. However we now propose that for ease of operational convenience, only Term Loan facility to be made eligible for Co Lending.

6.2 Individuals/Firms/Companies/LLP can be considered for loan. (In case of Retail loans only individuals as applicant to be considered)

6.3 Sectors: Loans pertaining to the following sectors can be considered for Co Lending, as detailed below:

a) MSME Loans

b) Housing Loans (Special emphasis on Affordable Housing Loans)

c) Retail Loans (Education Loans/Vehicle Loans)

d) Agriculture loans / Loans for Food Processing/Allied Agriculture

e) Micro Finance

f) Education Loans

g) Other Priority sector Loans

6.4 Quantum of Individual Borrower's Loan: The Maximum permissible quantum of individual loan including the share of both Bank and NBFC, put together should not exceed Rs 5 Cr across all the sectors. EDLCC, to begin with may restrict the maximum quantum of loan within this cap at a lower limit and may revise the same in due course, after evaluation of performance.

6.5 Risk Weight: Risk Weight in case of loans under Co Lending model should not be more than 100%. Preference should be given to lower risk weight assets under Co Lending.

6.6 Cap on no. of loans: Once a loan has been sanctioned and disbursed to an individual borrower under Co Lending model, another fresh loan cannot be sanctioned to the same borrower during the currency of existing loan, sourced through Co Lending model.

However separate fresh loan can be sanctioned to the borrower (even during the currency of loan sourced through Co Lending model), if it is out of Co Lending model.

6.7 Sourcing of Loan: In case of Co Lending, sourcing of loan will be done by NBFC. All initial KYC Checks and due diligence will be carried out by the NBFC itself.

6.8 All loans under Co Lending should be secured by assets financed out of the loan and all loans should be classified under priority sector, as per RBI norms.

In Case Unsecured Loans are considered under Co Lending model, the same should be backed by Immovable properties (On the lines of Asset Backed Loan/Loan against property)

7. Know Your Customer (KYC):

7.1 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.

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

7.3 Since the initial due diligence is being carried out by NBFC itself, NBFCs shall adhere to applicable KYC/ Anti Money Laundering (AML) guidelines as per extant norms. 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 29.05.2019), for the purpose of verifying the identity of customer at the time of commencement of an account – based relationship, Bank may at their option, rely on customer due diligence done by third party (in the instant case NBFC), subject to the following conditions to be ensured by NBFC:

7.4 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 or from Central KYC records registry.

7.5 NBFC to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence and NBFCs shall make them available to bank upon request without delay.

7.6 Physical Inspections will be carried out by NBFCs and the report is to be shared to branch/processing centers.

7.7 The ultimate responsibility for customer due diligence, lies with NBFC and Bank to satisfy itself of the said due diligence. Undertaking in the aforesaid, will be taken from NBFC at the time of tie up arrangement as mutually agreed between NBFC and Bank.

7.8 However if the Bank exercises its discretion regarding taking into Books the loans originated by NBFC/HFC, as per the agreement the arrangement will be akin to a direct assignment transaction. All the KYC norms will be followed as per the policy on Direct Assignment Transactions.

8. Interest Rates & Pricing:

8.1 As per RBI guidelines on CLM, 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.

8.2 Rate of Interest may be under both Fixed and Floating rate regime based upon mutually agreed terms with NBFC on case to case basis.

8.3 Based on the respective interest rates and proportion of risk sharing, a single blended interest rate should be offered to the ultimate borrower in case of fixed rate loans. In this scenario of floating rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution should be offered.

8.4 Interest Rate is elaborated for both the methods of lending as under:

Under Option I: Reimbursement without discretion: All inclusive rate i.e. RBLR/MCLR + BSP/BSS+ CRP+ Charges (in terms of % as mutually agreed).

Under Option II: Direct Assignment: The ROI should not be less than our RBLR/MCLR + BSP/BSS+ CRP+ Charges (in terms of % as applicable) to RAM Sector, as mutually agreed

8.5 As per Reserve Bank of India guidelines, both NBFC and Bank will have the flexibility to price their part of exposure as per credit rating /assessment of the borrower (based on their respective policies on pricing).

8.6 As per RBI directions Banks/NBFCs will be entitled to independently asses the risk and requirement of the applicant borrowers. Bank will follow its own guidelines for pricing/risk assessment/underwriting standards/prudential norms while considering any proposal under Co Lending model.

8.7 Though Bank/NBFC will be charging ROI individually based upon its risk appetite but the customer will be provided with a blended rate or all inclusive ROI. Generally NBFC charges certain % of the loan amount towards sourcing, monitoring and collection activity etc. In case bank is required to pay any charges to NBFC towards these services, Bank can load additional suitable spread over the card rate and accordingly blended/all inclusive rate may be calculated.

9. Other Customer Related Issues:

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

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

9.3 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.

10. Common Parameters for Lending:

10.1 Bank will forward a list of common lending parameters/product to the NBFC. Based on these lending parameters the NBFCs will source the business under this model. The business proposition sourced should match with all the lending parameters of the Bank for consideration. A Common Lending Parameters (CLP)/Product will be designed along with the specific NBFC and will form a part of the master agreement.

10.2 The lending Parameters (Common or Specific Product) will be set by the respective verticals viz MSME, Rural, and Retail after mutual discussions with the NBFCs. We propose that the lending parameters should conform to the Board approved policy guidelines of specific product or specific policies followed by the respective vertical.

A new Scheme code will be devised for Loan under Co Lending model. Further a MIS Code (NBFC Wise) will be generated in CBS for identifying the accounts financed with respective NBFCs.

In case of term lending the viability of the loan and the repayment capacity of the borrower will be evaluated based on the cash flows generated from the assets. The DSCR of the loan should be within maximum permissible bandwidth as per our credit policy and LTV should not exceed 90%. In case audited balance sheet is applicable and available all other financial parameters should conform to the policy guidelines.

If GST returns are applicable and available, same may be obtained and scrutinized for conscious and judicious decision making.

Reports from Credit Information Bureaus (CIBIL/Equifax/Experian etc) and CIBIL MSME Report (CMR), if applicable should be obtained and dealt as per prevailing policies.

Under this Co Lending model, post sanction and end use of funds will be verified by the NBFCs. However Bank officials will also carry out post sanction inspection, jointly or independently with NBFCs.

Since NBFCs are the contact points of the borrowers, they will act as a trustee and will keep all the security documents in their custody.

All Charges viz Mortgage/ Hypothecation/ Insurance/CERSAI/ROC etc will be created by NBFC for the full loan amount (including Bank's share)

In certain cases CGTMSE may be applicable in loan accounts. However obtention of CGTMSE coverage will be decided on case to case basis after mutual discussion with NBFC and the borrower.

11. Processing of Loans under Co Lending:

11.1 SMECCs (For MSME loans), RBCs (For Retail Loans) & SKVKS (For Agriculture loans) or Designated Branches will be the nodal points for receiving proposals from NBFCs.

11.2 In case the Bank 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. In such cases the loan acquisition and sanction can happen on an individual case basis with back to back assignment.

11.3 The Operational Modalities will remain the same as applicable in case of DA transactions, except for the fact that Minimum Holding Period (MHP) will be exempted in case of CLM mechanism and no separate Assignment deed needs to be executed and the Master Agreement with NBFC will have all the enabling clauses.

11.4 Further there shall be no obligation on the selling NBFC to re purchase or fund the repayment of the asset or any part of it or substitute assets held by

BANK OF INDIA SME SBU HEAD OFFICE, MUMBAI the buyer or provide additional assets to the buyer at any time except those arising out of breach of warranties or representations made at the time of sale.

11.5 As mutually agreed between NBFC and the Bank, Trustee may be appointed for all such transactions.

12. Reporting on CLM Working:

All Loans sanctioned under CLM mechanism is to be reported to Head Office – Respective verticals on a monthly basis. Further a performance analysis of loans under CLM mechanism is proposed to be placed before CAC on a quarterly basis. The formats for the same will be devised by Head Office – SME Department.

13. Validity & Review of Policy:

The Policy will be review annually and the current will remain valid till 31.03.2022.

14. Operating Guidelines:

Common Operating procedure as per RBI guidelines issued for the co-lending arrangement on time to time.

15. With the introduction of Co Lending Policy, the earlier Policy on Co Origination of loans will now become redundant and proposed to be withdrawn.

16. This Policy on Co Lending Model complies with all guidelines issued by Reserve Bank of India on Co Lending Model between Banks and NBFCs.