Policy on Co-lending

1) PREAMBLE

The Reserve Bank of India (RBI) vide circular no. FIDD.CO.Plan.BC.08/04.09.01/ 2018-19 dated 21/09/18 had put in place a framework for co-origination of loans by Banks and a category of Non Banking Financial Companies (NBFCs) for lending to the priority sector. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards.

Now, based on the feedback received from stakeholders and to better leverage the respective comparative advantages of the Banks and NBFCs in a collaborative effort and to improve flow of credit to unserved and underserved sector of the economy, RBI vide circular no FIDD.CO.Plan.BC.No.8/04.09.01/ 2020-21 dated 05/11/20 has extended the Scheme to all NBFCs (including HFCs) and rechristened the Scheme as "Co-lending Model (CLM)".

2) ESSENTIAL FEATURES OF CO-LENDING MODEL (CLM) BETWEEN BANK AND NBFC

A) *Scope*

a) Option-I

i) If the Agreement entails a prior, irrevocable commitment on the part of the Bank to take into its books its share of the individual loans as originated by the NBFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide RBI/2014- 5/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and updated from time to time. In particular, Bank and NBFC shall 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.

ii) 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) Option-II

i) 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. 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 dated 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.

*RBI has revised guidelines vide Master Direction-Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 dated September 24,2021 and Master Direction-Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24,2021.

ii) The 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 other conditions stipulated in the guidelines for direct assignment.

c) <u>In all future co-lending arrangements Bank will undertake due diligence of Loans originated by NBFCs/HFCs and accordingly, accept loans for Co-lending i.e. Bank will adopt Option-II of Co-lending in all new arrangements.</u> The Master Agreement entered into by UCO Bank and NBFCs for implementing the CLM to provide for UCO Bank to retain the discretion to reject certain loans subject to its due diligence.

d) UCO Bank shall not enter into co-lending arrangement with an NBFC belonging to the Group promoted by Bank.

B) Customer Related Issues

i) 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 NBFC and the Bank.

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

iii) The borrower may be ultimately charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.

iv) 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.

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

vi) 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 Integrated Ombudsman or the Customer Education and Protection Cell (CEPC) in RBI.

C) Other Operational Aspects

i) UCO Bank and NBFC shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/repayments) between UCO Bank and NBFC relating to CLM shall be routed through an escrow account (Disbursement & Collection Escrow Accounts) maintained with UCO Bank, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.

ii) The Master Agreement may contain necessary clauses on representations and warranties which the originating NBFC shall be liable for in respect of the share of the loans taken into its books by UCO Bank.

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

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

v) 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.

However, wherever NBFC requests Bank to allow them to report entire Loan amount to Credit Information Companies, Bank may allow NBFC to report entire Loan amount to Credit Information Companies. Further, wherever NBFC is allowed to report entire Loan amount to Credit Information Companies, Bank to take a confirmation from NBFC on quarterly basis that entire Loan amount in Co-lent Loan accounts is being reported periodically to Credit Information Companies.

vi) The loans under the CLM shall be included in the scope of internal/statutory audit within UCO Bank and NBFC to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

vii) Any assignment of the Co-lent loans by a co-lender to a third party can be done only with the consent of the other lender.

viii) Both UCO Bank and the NBFC 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.

3) Criteria for Selection of NBFCs

The eligibility criteria of NBFCs/HFCs for Co-lending with Bank are as under ~

I) Minimum Years in Business

RBI/NHB Registered NBFC/HFC which is in business for at least 2 years in the desired product segment.

II) Minimum AUM of NBFC/HFC

i) Minimum AUM of NBFC/HFC for Co-lending (except Agriculture Loans) ~ Rs.1,000 Crores.

ii) Minimum AUM of NBFC for Co-lending of Agriculture Loans ~ Rs.500 Crores.

iii) All product categories of the NBFC/HFC to be taken for the AUM.

III) External Credit Rating

i) External Credit Rating (**Long Term Rating**) should be A or higher or its equivalent.

ii) External Credit Rating (**Long Term Rating**) of NBFC for Co-lending of Agriculture Loans should be BBB or higher or it's equivalent.

iii) External Credit Rating should not be more than 1 year old as on date of approval of Co-lending arrangement.

Note:

CAC is competent Authority to allow relaxation to consider NBFCs with Long Term Rating of BBB (for Co-lending of other than Agriculture Loans) on a case to case basis.

IV) Gross NPA in the desired Product segment

Gross NPA in the desired Product segment (except MSME segment) should be less than 4% and Net NPA in the desired Product segment should be 2% or below during last two financial years (FY) i.e. as on 31st March of last Financial Years.

Note:

CAC is competent authority to allow relaxation to consider NBFCs with GNPA up to 4.5% in any or both of the last two FYs.

Gross NPA in MSME segment of NBFC should be 5% or below and Net NPA in MSME segment of NBFC should be 2% or below during last two financial years (FY) i.e. as on 31st March of last Financial Years.

V) Minimum CRAR

Minimum CRAR (at the end of last FY) of NBFC/HFC for Co-lending by Bank should be 1% above RBI/NHB mandated minimum CRAR subject to minimum CRAR of 15%.

Note:

CAC is competent authority to allow relaxation in CRAR up to RBI Prescribed minimum CRAR subject to minimum CRAR of 15%.

VI) Profitability of NBFC

NBFC/HFC should be profit making for last two Financial Years.

VII) Status of Loan Accounts of NBFC

Loan Accounts of NBFC, if any, should not be in SMA-1/SMA-2 categories during last 12 months. However, Pool accounts opened in the name of NBFC are not required to meet this criterion.

4) <u>Criteria of Loans to be considered for Co-lending</u>

i) Loans sanctioned to Individuals, Proprietorship Concerns, Partnership Concerns, Pvt. Limited Companies, Limited Companies (not listed on any stock exchanges) for purposes eligible to be classified as priority sector will be considered for Co-lending.

ii) <u>Only Priority Sector Loans are eligible for Co-lending</u> except following Loans which will not be considered for Co-lending (even if eligible to be classified as Priority Sector) ~

   I) Revolving credit facilities (e.g. Cash Credit accounts, Credit Card etc.)

   II) Other facilities viz. Overdraft (OD), Packing credit / Post shipment, Non Fund Based and Foreign currency loans etc.

iii) Maximum tenure of Loan, at the time of Sanction, to be as under:

- ❖ Home Loans ~ 35 Years
- ❖ Loan against Property ~ 15 Years
- ❖ MSME Loans ~ 15 Years
- ❖ Gold Loans ~ 1 Year
- ❖ Agriculture Loans ~ 10 Years
- ❖ For all other Loans, Bank's extant guidelines applicable to such Loans would be applicable

iv) No minimum tenure requirement.

v) Minimum & Maximum Loan amounts in each Co-lending arrangements will be decided separately in discussion with respective NBFC/HFC subject to compliance of Loans with Priority Sector of RBI.

vi) Loans originated from/prior to the date of execution of Master Agreement are eligible for Co-lending. NBFC to confirm that the details of the Co-lending arrangement are being disclosed to the Borrower.

vii) Loans acquired under Co-Lending should be certified as Priority Sector Loans (PSL) by the CA. Such Certificate to be obtained by the Designated Branch from the NBFC every quarter and to be kept on record.

5) KYC Compliance:

All Loans should be KYC complied. Bank and NBFC should comply with 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 25.02.2016 and updated from time to time. The extant KYC guidelines permit Banks to rely on the customer due diligence done by a third party (NBFC), subject to following conditions:

i) Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.

ii) Adequate steps are taken by Bank to satisfy itself that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.

iii) The third party 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.

6) Sharing of Loans for Co-lending by NBFC/HFC

i) There is no restriction on number of days from date of Sanction within which Loans are to be shared by NBFC with Bank for Co-lending.

However, while entering into Co-lending arrangement with NBFC/HFC, respective business vertical may prescribe requirements such as fresh CIBIL Score, Regular repayment history etc. for Co-lending of Loans sanctioned prior to certain number of days (as mutually agreed by Bank and NBFC) from current date.

ii) No minimum Holding Period required as permitted by RBI.

iii) Minimum Retention Requirement of 20% to be complied by NBFC/HFC for the entire tenure of the Loan.

iv) No overdue account to be accepted for Co-lending.

7) Area of Operations

i) Pan India i.e. Loans sanctioned by NBFC/HFC across India would be eligible for Co-lending.

ii) City/Centre/Branches for Co-lending:

- Cities/Centres for Co-lending will be identified by respective Business vertical in consultation with NBFC/HFC.
- Need based Branches of the Bank in each identified City would be authorised for Co-lending business. Branch for maintaining Escrow Account to be decided in consultation with the NBFC/HFC.

8) Stress Testing

As per RBI directives, Stress Testing will be done by Risk Management Department on Quarterly basis taking into account factors such as increase in default rate, economic downturn, rise in prepayments due to fall in ROI or any other relevant factor.

9) Audit of Portfolio

i) Audit and Inspection Department, Head Office on an ongoing basis will arrange to audit Co-lending portfolio during Concurrent and/or Regular audit of Branch. Further, special Audit of Portfolio may be also undertaken by Audit and Inspection Department, Head Office as and when need for the same arises.

ii) Auditors for the purpose would be guided by Master & Escrow Agreements and guidelines issued by Bank on entering Co-lending arrangement NBFC/HFC along with relevant regulatory guidelines.

iii) Audit and Inspection Department, Head Office would have this task conducted through their normal channel of Field Inspectorates and through the RBIA Audit mechanism.

iv) Audit and Inspection Department, Head Office to ensure the Co-lending business at Designated Branches is audited by Concurrent Auditors of same/nearby Branch on Monthly basis.

v) Concurrent Auditors to be directed to submit the Audit report to respective Business Vertical along with Field Inspectorate/Audit & Inspection Department, Head Office. Designated Branch to submit a copy of the compliance of observations of Concurrent Audit to respective Business Vertical.

10) Service Provider

i) NBFC/HFC would also act as Service Provider. The roles and responsibilities of Service Provider among other things, include:

- ✓ Recover Monies in relation to Co-lent Loans from Borrowers on due dates
- ✓ Enforcement of underlying securities by way of auction/other legal measures
- ✓ Notify Bank on becoming aware of non-payment of Principal/Interest

ii) The detailed roles and responsibilities of NBFC/HFC as Service Provider would be part of the Master Agreement.

11) Escrow Accounts

i) Three escrow accounts would be opened separately for Disbursement, Collection and Service Provider Fee Payment

- ✓ Disbursement of all sanctioned accounts to be made to Disbursement escrow account maintained with UCO Bank
- ✓ NBFC/HFC in its role as Service Provider deposits the collections made in

Co-lent Loan Accounts in the "Collection Escrow account" maintained with UCO Bank

- ✓ Entire Collections will be credited to Escrow Account and then shared with Bank & NBFC/HFC proportionately as per their respective share.
- ✓ Collections in the escrow account are to be credited in individual accounts with Bank as per the information shared by NBFC/HFC on value date basis
- ✓ Service Provider Escrow Account to be maintained for payment of Service Provider Fee

ii) Day to day operations in Escrow Accounts would be made by Escrow Manager on advice of NBFC/HFC. Mandates for operating these accounts by authorised officials of NBFC/HFC will be submitted to the Escrow maintaining Branch for their suitable action.

iii) Detailed Roles and Responsibilities of Escrow Manager will be included in the Master/Escrow Agreements.

iv) All escrow accounts will be reconciled by NBFC/HFC and they will share the report with Bank on regular basis, frequency of which may be defined in Master Agreement.

12) <u>Insurance</u>

NBFC/HFC to ensure adequate insurance cover of underlying Security/Borrower's life to protect the interest of Co-lenders.

13) <u>Reconciliation Issues</u>

Reconciliation of Individual Accounts would be done by NBFC/HFC on regular basis, frequency of which may be defined in Master agreement.

14) <u>NPA Management</u>

As per the extant RBI Guidelines, Co-lenders shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them.

Under no circumstances NBFC should enter into compromise/settlement or write off process in respect of co-lent loans including their own share unilaterally on their own. In respect of NPA accounts where the recovery aspects are bleak, NBFC can enter into compromise/settlement with Borrower after taking prior approval/consent of the Bank.