POLICY on

Co-Lending Model (CLM)

Bank of Baroda

Baroda Corporate Centre, Mumbai

2020

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1. PREAMBLE

The objective of this policy is to jointly originate loans with NBFCs, as permitted by the Reserve Bank of India (RBI). RBI had introduced a scheme for co-origination vide circular no. FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018. This has been revised and renamed as Co-lending Model by RBI circular no. FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated 05.11.2020.

The primary focus of the Co-lending Model is to improve the flow of credit to unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower costs of funds from Banks and greater reach of NBFCs.

The Co-lending of loans with eligible NBFCs will pertain to Retail, MSME, and Agriculture and Large Corporate verticals. It will include lending for priority sector only.

2. TERMINOLOGY

Abbreviation	Description
RBI	Reserve Bank of India
NBFC	All Registered Non-Banking Financial Companies (NBFCs) including Housing Finance Companies (HFCs)
CLM	Co-lending Model
KYC / AML	Know Your Customer / Anti – Money Laundering
MHP	Minimum Holding Period
Master Agreement	The Master Agreement entered into with NBFC for implementing the CLM.

3. FEATURES OF THE CO-LENDING MODEL (CLM)

The CLM has been formulated based on the revised guidelines advised in RBI Circular no. FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated 05.11.2020.

3.1 Sharing of Risk and Rewards:

The Bank may engage with NBFCs registered with RBI for Co-Lending. The arrangement should entail joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC, inter alia, covering the essential features as indicated in RBI guidelines on Co-Lending Model.

The Minimum 20% of the credit risk by way of direct exposure shall be on NBFC's books till maturity and the balance 80% will be on bank's books. The NBFC 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 company of the partner bank.

The Bank will take its share of the individual loans on a back – to – back basis in its books. However, NBFC shall be required to retain a minimum of 20% share of the individual loans on their books. However, the bank shall have discretion for taking into its books the loan originated by NBFC in compliance of RBI guidelines. Further, NBFC should seek consent of Bank before granting additional loan to the borrower outside co-lending arrangement.

3.2 Classification of Co-Lended loans:

The Bank can claim priority sector status in respect of its share of credit while engaging in the co-lending arrangement in case of priority sector loans.

3.3 Interest Rate:

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

The ultimate borrower may be charged an all-inclusive interest rate as agreed upon with the NBFC conforming to the extant guidelines applicable to both.

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 the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, should be offered. The interest rate charged by the bank for its portion of credit, shall be subject to applicable directions on interest rates on advances. Further, the NBFCs are also required to abide by the pricing of credit and other applicable guidelines for loans covered under "Qualifying Assets" regarding their contribution towards the co-lended loan. It is envisaged that the benefit of low cost funds from banks and lower cost of operations of NBFCs would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, banks and 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 Reserve Bank of India.

The NBFCs would have the flexibility to price their part of the exposure, while bank shall price its part of the exposure in a manner found fit as per their respective risk appetite/ assessment of the borrower and the RBI regulations issued from time to time. However, notwithstanding the charging of a single blended / weighted average rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the bank and the NBFC in proportion to their share of credit and interest.

3.4 Know Your Customer (KYC):

The Bank shall adhere to applicable KYC guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) vide Master Directions – KYC, 2016 i.e. 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 are to be done, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

3.5 Customer Service:

The NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of NBFC and Bank.

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

The extant guidelines relating to customer service and Fair Practices Code and the obligations enjoined upon the bank and NBFC therein shall be applicable mutatis mutandis in respect of loans given under arrangement.

3.6 Grievance Redressal:

i) It shall be the responsibility of the NBFC to explain the end to end process & procedure to borrowers regarding difference between products offered through the co-lending model as compared to its own products.

ii) The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower.
iii) Any complaint registered by a borrower with the NBFC shall also be shared with the bank and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for NBFCs or the *Customer Education and Protection Cell (CEPC)* in RBI.

3.7 Loan Sanction:

Bank shall co-lend with NBFCs under a CLM involving sharing of Risks & rewards, ensuring appropriate alignment of respective business objectives as per mutual agreement, minimum share of NBFC being 20%.

Bank shall have two options for sanction of loan under CLM:

i) Irrevocable Commitment on part of the bank to take into books its share of individual loans as originated by NBFCs
ii) Discretionary arrangement on part of the Bank to take portion of the loans originated by NBFCs. This should be done in compliance with the RBI guidelines on Transfer of Assets through Direct Assignment.

The Master Agreement entered into with NBFCs for implementing the CLM may provide either to mandatorily take our share of individual loans as originated by the NBFCs in our books or retain the discretion to reject certain loans subject to its due diligence.

3.7.1 Irrevocable Commitment:

(a) If the Agreement entails a prior, irrevocable commitment on the part of Bank to take into our books, our share of 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 by RBI vide RBI/2014-15/497/DBR No. BP:BC:76:/21.04.158/2014-15 dated March 11, 2015 and updated from time to time. In particular, there should be suitable mechanisms for ex-ante due diligence as the credit sanction cannot be outsourced under the extant guidelines.

(b) Compliance of the Master Directions – KYC, 2016 issued by RBI 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 is to be done, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

3.7.2 Discretionary Arrangement:

(a) If the Bank exercises its discretion regarding taking into its books the loans originated by NBFCs as per Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, 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 vide RBI/2011-12/540 DBOD.No.BP.BC103/21.04.177/2011-12 dated 07.05.2012 and RBI/2012-13/170 DNBS.PD.No.301/3.10.01/2012-13 dated 21.08.2012 respectively, as updated from time to time are to be ensured, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of CLM.

(b) The MHP exemption shall be available only in cases where the prior agreement with NBFC contains a back to back clause and complies with all other conditions stipulated in the guidelines for direct assignment.

(c) Based on above mentioned RBI Guidelines regarding Direct Assignment, our bank has formulated policy named 'Policy for purchase of Assets through Direct Assignment of Cash Flows and Underlying Securities' & revised from time to time.
The applicable guidelines for Direct Assignment under CLM, shall be referred from above said policy, as updated from time to time.

3.8 ESCROW Account:

The Bank and NBFC shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the bank and NBFC relating to CLM shall be routed through an Escrow account maintained with the bank, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders. The NBFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.

3.9 *Monitoring & Recovery:*

Both lenders shall create the framework for day to day monitoring and recovery of the loan, as mutually agreed upon.

3.10 *Security and Charge Creation:*

The NBFC shall arrange for creation of security and charge as per mutually agreeable terms, for the Bank's share also.

3.11 Provisioning / Reporting Requirement:

Bank & NBFC shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each one of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.

3.12 Assignment / Change in Loan Limits:

Any assignment of loans by any of the lenders to a third party can be done only with the mutual consent of both the lenders. Further, any change in loan limit of the co-lended facility can be done only with the mutual consent of both the lenders.

3.13 Inspection & Audit:

The loans under the CLM shall be subjected to periodic internal / statutory audit within Bank and NBFC to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements.

3.14 Business Continuity Plan:

Both the bank and the NBFC shall implement a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.

4. TERMS & CONDITIONS FOR CLM

4.1 Selection criteria of NBFCs :

Under this Policy, Bank will enter into Co-Lending arrangement with NBFCs who are seasoned market players with satisfactory track record and good market reputation. The proposed NBFCs should meet the following criteria (in continuation with the existing Co-Lending Policy):

i) Registered NBFCs including Housing Finance Companies (HFCs)
ii) Minimum 5 years into the establishment of the product range for which Co-Lending is proposed.

iii) Minimum external rating of A or equivalent.
iv) Required technological platform to maintain accounts and exchange necessary MIS.
v) Delinquency in the portfolio of the product in which Co-Lending is proposed should not exceed 5% in GNPA.
vi) NBFCs should comply all the guidelines laid down by RBI and other regulatory authorities issued from time to time including Regulatory Capital norms, Liquidity Mismatch analysis etc.(as certified by professional CMA/CA/CS)
vii) During last two years, Capital Adequacy ratio to be above 2% of the minimum capital requirement as laid down by RBI for NBFCs.
viii) NBFCs should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.
ix) Co-lending arrangement with a NBFC belonging to the promoter Group shall not be allowed.

4.2 Co -Lending Product:

Detailed products, processes etc. will be finalised after discussion with the proposed NBFC, on case to case basis, keeping in view its target segment, area of operations, other operational issues etc. A Mutually agreed product program will be decided for every NBFC determining the model of sourcing, pricing, lending, collection and recovery mechanism, servicing fees etc. duly approved by respective competent authority (as mentioned herein after at para no.5). Tenure of such product program may be mutually agreed upon and to be incorporated in the Co-Lending Master Agreement by the lenders.

4.3 Process in brief:

- Selection of NBFC as per eligibility criteria.
- Adaptability check of the product to be co-lended.
- Obtaining approvals from MD & CEO/ED (as applicable) regarding commercials / service fee pay out in proposed Co-Lending product, to NBFC.
- Approval for entering into Master Agreement with NBFC from ED
- Execution of Master Agreement with NBFC.
- Formulation of Common Lending programme along with process-flow and standard operating procedures.

- Obtaining approval from RCSA / PPAC / CPC (as applicable) for introduction of Co-Lending product.
- Processing and sanction of proposals under CLM may be undertaken by Centralised Processing Hub including SMS and SME branches/SMELF/Samanvay Cell.

4.4 Documentation:

Any legal document including Master Agreement, Facility Agreement and any document having legal implication under this arrangement would be finalized in consultation with NBFCs and would be vetted by our Bank's Legal Department or Solicitor/ Advocate on the Bank's approved panel list.

i) Master Agreement: A Master Agreement shall be entered into with NBFCs 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 & dispute resolution as well as customer interface and protection issues.

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

All Legal Modalities would be covered under this definitive agreement with the NBFC and vetted by our legal department or Solicitor/ Advocate on the Bank's approved panel list.

ii) Loan documents: Loan agreements shall be drafted and finalised in consultation with NBFCs and would be vetted by legal department.

Bank may entrust the NBFC (through a Power of Attorney) with the responsibility of execution of documents on bank's behalf. However, indemnity from the NBFC to cover the loss to the Bank in case of failure by NBFC in duly performing its duty to be obtained. Further, this arrangement to be captured in the Master Agreement with NBFC.

In all cases, disbursement of the loan would be done after the legal vetting of the documents by Bank's Legal Officer/ CMO/ Empanelled Advocate, as per extant Bank guidelines.

Further, the vetting of documents based on scanned copies may be allowed on case to case basis.

4.5 Co-branding of documents:

NBFC being the front ending partner and representing both the lenders in front of the customer, it is desirable for all the parties to have a co-branded set of documents to smoothen the process for customer facilitation and awareness.

Common Documents include but not limited to – Application form, Sanction letter, Facility Agreement and/or any other document communicated to the customer having any legal implication.

4.6 Standalone sanction of Co-Lended loan:

If any existing borrower of the Bank is sourced by NBFC, then facility under Co-Lended loan will be assessed & sanctioned on standalone basis i.e. without linking the existing individual / group with the Bank for the purpose of Discretionary Lending Power (DLP), subject to:

i) The Sanctioning authority of Co-Lended loan shall ensure that the conduct of the borrower / group account is satisfactory and regular review of facilities is not pending for the concerned borrower.
ii) The recommendation / views of the concerned branch of the borrower is obtained.

4.7 Safe custody of documents :

As per bank's present practise, the documents executed in the respective branch are kept with branch itself. Since, it is a co-lending arrangement, the documents may be kept under a third party repository as mutually agreed upon making it convenient for retrieval. This will be subject to the conditions that duly attested/certified scanned copies of all the executed documents will be provided to our bank and shall be vetted by the legal officer of bank before disbursement.

However, the Master Agreement should inter-alia contain the suitable clauses including indemnity clause along with right to retrieve the documents (jointly with NBFC or individually by Bank, as applicable) from the third party repository. Suitable clauses should be incorporated in the agreement to ensure that in case of liquidation of NBFC or if otherwise required by Bank, all the documents should be retrieved as and when required by the bank within a certain time frame.

4.8 Cross Sell:

Bank shall have rights to cross sell its/associates/ JV's products to the canvassed customers under the Co-lending Model program, extent of which would be detailed in the proposal to be approved/sanctioned by the competent authority/ Master Agreement duly vetted by legal department, BCC or Solicitor/ Advocate on the Bank's approved panel list.

5. APPROVING AUTHORITY STRUCTURE:

The authorities for approval and considering the deviations are as under:

Approval For	Authority
Entering into Co-Lending arrangement and / or Master Agreement by Vertical Head	**Executive Director** of the concerned Vertical
Commercials for pay out (sourcing fee, collection fee etc.) to NBFC	**MD & CEO / Executive Director**
The product & process related modalities and all related matters, amount of loan, pricing documents, service fee, etc. (as per mutually agreed terms with individual NBFC)	Respective Committees: **RCSA** **PPAC** **CPC**
Deviation in eligibility criteria for selection of NBFC in this Policy	Executive Director of the concerned vertical

6. VALIDITY PERIOD OF POLICY:

- The Policy shall be valid upto 3 years from the date of approval however review may be undertaken before due date, if there is any change in the regulatory guidelines or in Bank's internal guidelines.
- The existing Policy will be valid till the next renewal/ review.
- Any regulatory guidelines issued by RBI/ Government, post approval till the date of expiry of this Policy, shall form part of this Policy pending formal inclusion at the time of renewal of the Policy.

7. POLICY ADMINISTRATION AND REVIEW

The Policy is prepared by MSME department which is also responsible for its ownership and maintenance. Any queries related to the Policy or request for any modification will be addressed by MSME Department.