

Policy for Co-Lending by Bank and NBFC to Priority Sector

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

- The Master Agreement entered into by UCO Bank and NBFCs for implementing the CLM may provide either for UCO Bank to mandatorily take its share of the individual loans as originated by the NBFC in its books or retain the discretion to reject certain loans subject to its due diligence
 - 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/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and updated from time to time. In particular, UCO 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
 - iii) 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 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

iv) 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

- UCO Bank shall not enter into co-lending arrangement with an NBFC belonging to the promoter Group

B) Customer Related Issues

- 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 UCO Bank
- All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken
- 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 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
- The NBFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with UCO Bank
- 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

C) Other Operational Aspects

- 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 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
- 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
- The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon
- The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms
- 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
- 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
- Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender
- 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) COMPETENT AUTHORITY

Managing Director & CEO and in his absence Executive Director would be the competent authority for approval of all issues relating to Co-Lending Model within the ambit of the Policy/any further amendments by RBI