

## Co-Lending model (CLM)

### EXTRACTS FROM THE BANK'S BOARD APPROVED POLICY ON CO-LENDING MODEL – CO-LENDING POLICY RETAIL

#### **A. BACKGROUND AND REFERENCE:**

Priority Sector Lending (PSL) targets of the Bank have been met through direct lending or sometimes through purchase of pools or investment in bonds.

In its press release on 'Statement on Developmental and Regulatory Policies' dated August 1<sup>st</sup> 2018, RBI indicated its intention to allow co-origination of loans by the Banks and NBFCs for lending to priority sector. Further to the press release, RBI issued guidelines on September 21<sup>st</sup>, 2018.

Based on the feedback received from the stakeholders and to better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort, RBI decided to provide greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc. The revised guidelines after the feedback were issued by RBI on November 5<sup>th</sup> 2020.

The primary focus of the revised scheme, rechristened as "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, considering the lower cost of funds from banks and greater reach of the NBFCs.

#### **B. Guidelines for Selection of NBFC**

The Bank would engage with NBFC's fulfilling the following criteria:

- NBFC (including HFC's) should be registered NBFC's
- NBFC meets all extant RBI guidelines
- NBFC is not belonging to Promoter group of the bank
- 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.
- Any other criteria defined by Bank's internal policies

#### **C. Individual Product Guidelines**

The Bank has individual product policies covering the nuances of the concerned individual products, the co-lending policy for the respective products will be covered in detail under respective product policies.

#### **D. Priority Sector Lending**

The Priority Sector Lending (PSL) classification is being done in accordance to the norms specified by RBI vide its master circular as well as any changes introduced by the regulator from time to time.

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

The Bank will partner with NBFCs for sourcing PSL loans under the CLM arrangement. Any instance where the Bank proposes to enter into a CLM arrangement with NBFC for sourcing Non-PSL loans will be treated as deviation to this policy and will require a prior RBI approval.

#### **E. KYC norms**

Both NBFC and Bank will adhere to applicable KYC/AML guidelines while conducting due diligence & Sanctioning of loan through CLM.

#### **F. Outsourcing**

The Bank's Outsourcing Policy for financial activities has been operational since 2007, with the approval of Risk Management Committee of the Board in accordance with the circulars issued by Reserve Bank of India. The same has been regularly updated with the latest regulatory guidelines.

The partnered NBFC should mandatorily comply with Bank's Outsourcing Risk Policy. However the due diligence cannot be outsourced by the Bank or NBFC and should be carried out by its own officers with the same rigour as it has been applied when sanctioning new loans by the Bank or NBFC.

If the Agreement between bank & NBFC 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.

#### **G. Security Charge Creation**

Security and charge creation wherever applicable would be done by both Bank and NBFC. For any change in Security & charge, NOC of Bank will be mandatory.