Co-Lending Policy
FY 2023 - 24
Ver 3.1

Extracts from the Bank's Board Approved policy on Co-Lending Model

Introduction:

The Reserve Bank of India (RBI), vide its Circular No: FIDD.CO.Plan. BC.No.8/04.09.01/2020-21 dated November 05, 2020, has issued guidelines on Co-Lending of loans by Financial Institutions (FIs). The partnership entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards.

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 Co-Lending partners.

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

In terms of the CLM, banks are permitted to co-lend with all Co-Lending partners based on a prior agreement. The Co-Lending banks will take their share of the individual loans on a back-to-back basis in their books. However, Co-Lending partners shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

This CLM policy covers terms and conditions of the partnership, the criteria for selection of partner institutions, the specific product lines, and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues.

Essential Features of Co-Lending Model between Bank and Co-Lending partners

I. Scope

1. The Master Agreement entered by the Bank and Co-Lending partners for implementing the CLM should provide either for the Bank to mandatorily take their share of the individual loans as originated by the Co-Lending partners in their books or retain the discretion to reject certain loans subject to its due diligence.

a. If the Master 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 should 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, the Bank and NBFC will have to 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. The entire process (including the credit sanction process) should also be approved by MCAP. Bank to also follow its internal Outsourcing Policy (version 1.8) of February 2021 and its updation from time to time.

b. The Bank should also 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. The KYC process should be approved by Bank's internal Compliance / MCAP. Bank to also follow its internal KYC Policy (version 1.0) of December 2020 and its updation from time to time.

c. However, if the Bank exercises its discretion regarding taking into its books the loans originated by NBFC as per the Master Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, Bank should 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. The process so envisaged should also be approved by MCAP. This process needs to be mandatorily followed for Non-PSL Loans. Bank to also follow its Securitization & Direct Assignment Policy of the Bank (Ref: Product/ Securitization / 20-21 / 01 dated 4th December 2020) its updation from time to time.

d. The MHP exemption will be available only in cases where the prior agreement between the Bank and co-lending partners contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment. This clause should be a part of the Master Agreement which the Bank will sign with the Co-Lender.

2. The bank can co-lend with all Co-Lending partners based on a prior agreement. The bank will take its share of the individual loans on a back-to-back basis on its books. However, the Co-Lending partner shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

3. Bank will not be allowed to enter Co-Lending partnership with Co-Lending partners belonging to the promoter Group.

II. Customer related aspects

The following customer related aspects should form part of the Master Agreement between the Bank and the Co-Lender. In addition, customer loan documentation shall be approved by Legal Team (wherever applicable)

1. The Co-Lending partners should 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 partnership and the roles and responsibilities of Co-Lending partners and Bank.

2. All the details of the partnership should be disclosed to the customers upfront, and their explicit consent shall be taken.

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

4. The periodicity of levy of interest to the ultimate borrower will form part of the Master Agreement between the Bank and the Co-Lending partner

5. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Bank and Co-Lending partners therein shall be applicable mutatis mutandis in respect of loans given under the partnership.

6. The Co-Lending partners will be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.

7. 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 Co-Lending partners 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.

   Accordingly standard master agreement will be made which will be vetted by DCB Bank's legal team.

III. Other Operational Aspects

The following operational aspects should form part of the Master Agreement between the Bank and the Co-Lending partners

1. The Bank and Co-Lending partners will maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the Bank and Co-Lending partners relating to CLM shall be routed through an escrow account maintained with the Bank, to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.

2. The specifics of the escrow account, including the time taken to credit recovery amount in the escrow account, will form part of the Master Agreement between the Bank and the Co-Lending partner.

3. The Master Agreement will contain necessary clauses on representations and warranties which the originating co-lending partners shall be liable for in respect of the share of the loans taken into its books by the Bank.

4. The co-lenders will establish a framework for monitoring and recovery of the loan, as mutually agreed upon and will form part of the Master Agreement between Bank and the Co-Lender

5. The co-lenders will arrange for creation of security and charge as per mutually agreeable terms.

6. Bank will 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.

7. The loans under the CLM will be included in the scope of internal/statutory audit within the Bank and Co-Lending partners to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

8. Any assignment of a loan by the Bank to a third party can be done only with the consent of the other lender and vice versa.

9. Both the Bank and the Co-Lending partners will 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 partnership between the co-lenders.

IV. Selection Criteria for Co-Lending partner:

The key considerations while appointing any Co-Lending partners will be:

(i) Details of the entity and management
(ii) Reputation/Market standing
(iii) Financial Soundness
(iv) Details of product and process, including cash handling ability
(v) Ability to implement technology solution in rendering financial services

V. Product Details of Asset Programs:

The product offering under CLM would be in line with already existing approved program. In case of any differences, it will be approved by the Credit Committee of the Board (CCB). In case of new product, it will be approved by the Credit Committee of the Board.

VI. Monitoring Parameter for Co-Lending partner & Frequency:

The appointed Co-Lending partners shall be reviewed on a periodic basis involving all the following parameters:
(i) Scope of engagement
(ii) Business volume or performance
(iii) Risk and mitigants
(iv) Overall evaluation of the Co-Lending partners standing in the market by way of visiting them at periodic intervals
(v) Customer training and dispute handling
(vi) Adherence to various processes and policies of the Bank
(vii) Customer data handling

These reviews shall be done yearly, and the review note shall be submitted to the Credit Committee of the Board, by respective units for noting purposes.

VII. KYC Norms:

KYC and AML directions, as laid down as per the Bank’s policy will be followed in all cases.

VIII. Collections and Settlement norms:

The bank will ensure that the Co-Lending partners have a board-approved policy for loan recovery in place (which covers Code of Conduct by field staff systems for their recruitment, training and supervision etc.

Details with respect to collections & recovery and responsibilities of each Co-Lending partner will be covered in the Master Agreement including delegation matrix for approval of waiver, settlement, OTS etc.

IX. Payment of commission/fee:

The Bank will pay reasonable commission/fee to these Co-Lending partners, the rate and quantum of which can vary for different Co-Lending partners depending on the scope of service handled at their end, and the same will be reviewed periodically. The Master Agreement with the Co-Lending partners will prohibit the Co-Lending partners from charging any fee other than approved by the Bank and on behalf of the Bank to the customers directly for services rendered by them on behalf of the bank.

X. Consumer Protection Measures and Grievance Redressal:

The respective policies of the Bank shall be followed for customer protection measures and customer redressal. All grievances shall be resolved by Service Excellence team and Nodal officer of the Bank.

XI. Customer Education:

Financial literacy and customer education will form an important part of the business strategy and part of the commitment by the bank's team adopting the Co-Lending Model.

Information regarding Co-Lending partners engaged by banks will be placed on the Bank's websites.

The Annual Report of the Bank will also include the progress in respect of extending banking services through the Co-Lending Model and the initiatives taken by Bank in this regard.

XII. Data Security & Record Management:

The existing policy of the Bank shall be followed with respect to Data Security Policy and Record Management Policy of the Bank.

XIII. Benchmarking of Co-Lending Guidelines:

We have done benchmarking of CLM guidelines issued by RBI in terms of its adherence.