



सिडबी सं.आईएफवी-एनबीएफसी/ OUT/ 13897/ नीति

SIDBI No. IFV-NBFC/OUT/13897 / POLICY (IFV-NBFCs)

फरवरी /February 22, 2022

भा.रि.बैं. के साथ पंजीकृत आई सी सी - एनबीएफसी /  
ICC-NBFCs registered with RBI

संस्थागत वित्त उद्भाग - एनबीएफसी परिपत्र सं. 4 / 2021-22  
IFV-NBFC Circular No.4/ 2021-22

महोदया / प्रिय महोदय/ Madam / Dear sir,

Scheme of Co-Lending with NBFCs

RBI द्वारा 'Co-lending by Banks and NBFCs' पर जारी दिनांक 05 नवंबर, 2020 के परिपत्र संख्या 2020-21/63 FIDD. CO. Plan. BC. No. 8/04.09.01/ 2020-21 के दिशा निर्देशों के संदर्भ में, सिडबी के बोर्ड ने SIDBI's Co-lending with NBFCs की नीति को मंजूरी दी है, जो कि संलग्न है।

The Board of SIDBI has approved the Policy for 'SIDBI's Co-lending with NBFCs' in terms of the guidelines issued by RBI vide circular 2020-21/63 FIDD. CO. Plan. BC. No. 8/04.09.01/2020-21 dated November 05, 2020, which is placed at Annexure.

भवदीय / Yours faithfully,

[राजीव सूद/ Rajive Sood]

महाप्रबंधक / General Manager

संलग्नक: यथोक्त

Encl: As above.

बैंक हिन्दी में पत्राचार का स्वागत करता है।

भारतीय लघु उद्योग विकास बैंक

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अनुबंध / Annexure

**SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA  
(SIDBI)**

**Policy for Co-lending of loans by  
SIDBI and NBFCs**

Version 1.0 – February 2022



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## A. Policy Framework

### 3.1 Background

Reserve Bank of India (RBI) had issued guidelines on Co-origination of loans by Banks and NBFCs for lending to Priority Sector vide Circular FIDD.CO. Plan. BC.No.08/04.09.01/2018-19 dated 21/09/2018. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards. Subsequently, RBI issued fresh guidelines on Co-Lending by Banks and NBFCs to Priority Sector vide circular FIDD. CO. Plan. BC.No.8/04.09.01/2020-21 dated 05/11/2020, superseding its earlier Co-origination circular mentioned above. This policy, for entering into Co-lending arrangement with NBFCs (CLM), has been formulated in line with the extant RBI guidelines on Co-lending dated November 5, 2020.

### 3.2 SIDBI's Focus Area

The co-lending with NBFCs is intended to target MSME<sup>1\*</sup> and other eligible concern including retail trade across SIDBI's focus areas. SIDBI's co-lending agenda will be focused on credit demand segments with high credit gap. SIDBI will target to collaborate with NBFCs that will provide to it the geographical reach for relevant segments with credit gap where the partnership can enable high impact and provide impetus to the sector.

"Other eligible concern" means any concern engaged in activity as provided under section 2(h) of the Small Industries Development Bank of India Act, 1989 and having investment in plant and machinery or equipment, or turnover threshold of Micro and Small Enterprises as defined under the Micro, Small and Medium Enterprises Development Act, 2006, as amended from time to time, and who has availed / proposes to avail loan from the partner NBFCs for acquisition of any assets (like fixed assets, plant, machinery, equipment, commercial vehicles or other assets including for working capital) for productive purposes or for acquisition of commercial vehicles.

<sup>1</sup> MSME: As per definition contained in Gol Gazette Notification S.O.2119(E) dated June 26, 2020 (as amended from time to time) for the eligible activities as defined in section 2(h) of SIDBI Act, 1989 for bonafide business purposes.



### *3.3 Objective*

The objective of this document is to lay down the policy for SIDBI to govern and manage the co-lending agenda to provide direct retail lending to MSMEs on risk sharing basis through NBFCs as a partner, in line with RBI guidelines on Co-lending vide circular no RBI/2020-21/63 FIDD.CO.Plan. BC.No.8/04.09.01/2020-21, dated November 05, 2020. Essential features of the Co-Lending Model (CLM) between SIDBI and the partner NBFC shall be in line with the said RBI circular and as amended from time to time.

### *3.4 Policy Applicability*

This policy will be applicable to all co-lending partnerships (with NBFCs) initiated from the date of policy approval. The policy shall be updated in accordance with any regulatory mandates as and when issued and as applicable. The policy details out contours of the operating model framework and governance structure.

### *3.5 Products*

The products, which SIDBI would be targeting under this policy, would be aligned with SIDBI's focus areas.

### *3.6 Criteria for Screening of NBFCs for Potential Partnership*

In order to identify the right partner, NBFCs will be analyzed based on various parameters. Detailed assessment criteria shall be as per the extant Internal Operational Guidelines.

### *3.7 Application and Selection Process*

1. NBFCs seeking to collaborate with SIDBI will have to submit an application to SIDBI
2. SIDBI will conduct due diligence of the NBFCs and Products, Standard operating Procedures (SoP), commercials with individual NBFCs shall be approved along with sanction of Co-lending limit for partnership with the NBFCs as per the DoP in this regard.



3. Post that, SIDBI will sign the Co-lending Master Agreement (CLMA) with the NBFC.

### *3.8 Scope of Agreement with the NBFC*

SIDBI will sign a CLMA with selected NBFC/s which will be reviewed annually and shall be valid till the time of termination by either of the parties. The CLMA will cover the following, but not be restricted to:

- Operating Model
- System Integration and Technology Architecture
- Product and Pricing
- Collections and Recovery
- Manner of appropriation between the co-lenders.
- Branding
- Governance
- Escrow Account
- Customer service
- Credit Assessment Policy
- Risk Management
- Assignment Terms
- Portfolio Performance and review
- Business Continuity
- Termination Clause and Process
- Key responsibilities of Co-lenders
- Representation & warranties for Co-lenders

### *3.9 Loan Loss/ Non-Performing Assets*

As defined by the RBI regulations, 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.

### *3.10 Debt Restructuring*

The debt restructuring norms of RBI will govern restructuring under co-lending partnership. The parties would define their approach and would work to arrive at a common approach as far as possible.

### *3.11 Direct Assignment*

The partner NBFC cannot undertake assignment unless agreed to by SIDBI. Both parties will retain the first right to buy out each other's portfolio at mutually agreed terms.

### *3.12 Contract Termination*

There could be scenarios resulting in contract termination for following reasons (but not limited to):

1. Unfair Practices
2. Business Reasons
3. Non-Renewal

### *3.13 Dispute Resolution*

In case of any dispute with the partner NBFC, both lenders will first try to resolve the matters amicably. However, in case of non-resolution due to any reason, all differences or disputes between the lenders shall be submitted for arbitration in accordance with the provisions under the Arbitration and Conciliation Act, 1996.

### *3.14 Business Continuity*

In case of termination of partnership between SIDBI and the NBFC due to any reason, a detailed transition plan will need to be executed based on mutual agreement between SIDBI and the NBFC.

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*B. Operational Guidelines framework in respect of MSME borrower of Partner NBFC/ SIDBI:*

This part lays down the guiding principles for designing the operating model and process flow for co-lending of loans. The policy also envisages roles and responsibilities of both SIDBI and partner NBFC across the loan life cycle after signing of loan co-lending agreement i.e CLMA as per mutually agreed terms. Detailed internal operational guidelines / Standardized Operating Procedure (SoP), shall be approved by the competent authority.

4.1 Loan Co-lending

The NBFC shall recommend to the Bank a proposal outlining the proposed arrangement for MSME loan under co-lending as per RBI circular dated November 05, 2020, either under

i. para 1.a of Circular :

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, the partner bank and NBFC shall 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

or

ii. Para 1.c of circular:

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. 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. SIDBI may opt for either of the options on case-to-case basis, as per mutually agreed terms.

Target identification and loan origination will be the primary responsibility of the NBFC partner. They will ensure that the customer is aware of the intricacies of the product and various charges involved in it. It shall be the responsibility of the NBFC to explain to the borrower the difference between products offered through the co-lending model as compared to its own products.

#### 4.2 KYC / AML

As part of the co-lending process, the KYC of all customers, as per the guidelines of the RBI will be done by the NBFC. The partner NBFCs shall ensure CKYC of the customers and share the identifier with SIDBI. SIDBI in terms of the RBI guidelines on KYC norms, for the purpose of verifying the identity of customers, shall rely on customer due diligence done by partner NBFCs being 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, subject to the following:

- (a) The partner NBFC shall furnish the records, or the information of the customer due diligence carried out by it to SIDBI within two working days.
- (b) Copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available by the partner NBFC upon request without delay.

#### 4.3 Credit Assessment

Credit assessment of the borrower will be conducted by the NBFC and SIDBI, the granularity / detailing of which will be as agreed in the CLMA.



As part of the said CLMA with the NBFC, SIDBI will review the credit assessment framework of the NBFC to ensure that it meets the required standards of SIDBI. SIDBI may request the NBFC to amend their credit framework in order to ensure that it meets SIDBI's requirements.

Based on the approved assessment framework, the NBFC will have the primary responsibility to assess every borrower and share the approved/disbursed proposals with suggested loan amounts through a system-based workflow /manually to SIDBI for its assessment. The NBFC will also ensure verification of the borrowers with various data repositories (like credit bureau defaulter list, list of terrorist's organizations etc.)

SIDBI will run the proposal through its data driven system /manual rule engine to scrutinize the proposal and may conduct its own credit assessment. SIDBI will reserve the right to do a detailed physical credit assessment for any of the sites, factories, offices, as may be required. SIDBI may choose to conduct a high level or detailed assessment of the received proposal and pass a decision on acceptance or rejection of the loan as per the mode decided in the CLMA with the NBFCs.

#### 4.4 Terms of Pricing/ Commercials

Pricing of the loan products will be done on all-inclusive rate of SIDBI and partner NBFC on case-to-case basis, as per mutually agreed terms, which shall be subject to the approval by delegated authority at SIDBI.

As part of the individual Co-lending agreement requirements, the NBFC is required to share their Board approved credit policy for its products under co-lending. NBFCs will be required to maintain transparency in sharing of data with SIDBI on regular frequency.



### Processing Fees

The processing fee / upfront fee, at the rate agreed under the arrangement, would be levied by the NBFC for the combined loan extended (by the NBFC and SIDBI); sharing of fees with SIDBI shall be decided on a case-to-case basis with the partner NBFC.

### Other Charges

Any other charges to be levied on any customer will be decided jointly, in line with RBI regulations.

#### 4.5 Sanction/ Rejection of loans to MSMEs

Depending upon the option chosen by the SIDBI, sanction/rejection shall be done basis agreed parameters /due diligence carried out by SIDBI as per DoP either on manual mode/through partner NBFC system/any third-party middleware tech platform for the purpose.

#### 4.6 Documentation

Depending upon the option chosen by the SIDBI, partner NBFC will ensure all documentation including Customer due diligence, KYC, collection of postdated cheque / debit mandates from borrowers in respect of the installments, any other requirement and documentation as defined in the individual agreement.

The lenders shall arrange for creation of security and charge as per mutually agreeable terms which shall be part of the individual agreements.

#### 4.7 Disbursal

Funding to the escrow account will be done by SIDBI and NBFC depending upon the option chosen by the SIDBI. The NBFC will send the borrower a confirmation of such disbursement made. It will be the NBFC's responsibility to verify the end-usage of the loan disbursed. SIDBI will retain the right to audit or assess any of the verifications done, besides visiting the borrower.

#### 4.8 Collections and Recovery

The primary responsibility of collections and Recovery will be that of the NBFC. It will proactively monitor the customer, collect scheduled payments and share MIS report with SIDBI as per periodicity prescribed by SIDBI. The NBFC will ensure that the collection of payments is occurring as per the loan schedule.



NBFC will abide by all applicable laws as regards collections and recoveries. The approach followed for recovery will be defined by SIDBI and NBFC together.

All the payments/ collections/ recoveries received from the borrower shall be deposited into a designated collections escrow account.

The NBFC would be advised to follow SIDBI's fair practices code through the collections and Recovery process. Collection of interest and other charges for any delayed period and recovery (including partial recovery) shall be shared with SIDBI as per agreed methodology.

The NBFC will have to seek SIDBI's permission to hire any third-party agencies for collections and will be responsible for their conduct and compliance with SIDBI's fair practices and RBI norms.

#### 4.9 Customer Service and Grievance Redressal

As per the RBI guidelines, the NBFC being customer face, will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with the NBFC and/or SIDBI shall also be shared with SIDBI/ NBFC. In case, the complaint is not resolved within stipulated time, the borrower would have the option to escalate the same with concerned Banking Ombudsman or Ombudsman of NBFCs. The responsibilities and expected turnaround time of resolution for varied nature of customer servicing will be as follows:

Nature Of Customer Service	Responsibilities With Defined Turnaround Time
General Query	Primary responsibility of NBFC with a defined turnaround time (TAT)
Regular Servicing	Primary responsibility of NBFC with a defined TAT as per the loan agreement
Grievances	Primary responsibility of NBFC, but SIDBI to also monitor and address in cases of escalations

NBFCs, while resolving the grievances, have to adhere to SIDBI's grievance redressal policies, other customer-related fair practices and all RBI guidelines. A clear

escalation matrix will be designed within the individual CLMA in order to ensure timely resolution of grievances.

For the purpose of communication, a common two-way reporting platform will be enabled between the NBFC and SIDBI in order for both the lenders to have a clear view of received, ongoing and closed grievances. For loan accounts, both NBFC and SIDBI shall maintain individual borrower's accounts and will also generate and share a single unified statement to the customer.

The monitoring & resolving including handling and escalations of customer complaints shall be as per mutually agreed terms. However, in cases of any dispute, the final decision lies with SIDBI.

#### 4.10 Audit of Loans under CLM:

The loans under CLM shall be included in the scope of Concurrent (at pool level), Internal/ statutory audit (IA & SA) within the Bank and NBFC to ensure adherence to their respective internal guidelines, terms of the agreement, extant regulatory requirements and additional requirements from Govt. of India in case of loan accounts becoming eligible for interest subvention etc., if any. Therefore, Bank's extant IA & SA guidelines will be made applicable to all loans under co-lending model as per internal guidelines of SIDBI for such loans.

#### 4.11 Reporting

##### Data and reports

The NBFC will have the responsibility for creation and supply of all reports as requested by SIDBI. Additionally, the data for all assessments, transactions and grievances will be recorded on a common platform/ platform maintained by NBFC/ third party platform and SIDBI should be able to retrieve data and reports as and when it deems fit.

##### Provisioning

Each of the lenders shall follow its independent provisioning requirements and asset classification norms, as per the regulatory guidelines respectively applicable to each of them. Each of the lenders shall carry out their respective reporting requirements



including reporting to Credit Information Companies, under respectively applicable law and regulations for their portion of lending.

#### 4.12 Key Responsibilities

Across the Loan Life Cycle, the roles and responsibilities will be carried out by either the NBFC, SIDBI or both.

Task	NBFC	SIDBI
Loan Origination	Primary Responsibility	Secondary Responsibility
Credit Assessment	Several Responsibility	
KYC Compliance	Primary Responsibility	Primary Responsibility
Pricing	Joint Responsibility to arrive at all inclusive rate as per RBI guidelines	
Sanction/ Rejection	Several Responsibility (as per agreed terms in CLMA)	
Documentation	Primary Responsibility	Secondary Responsibility
Disbursal	Primary Responsibility	Secondary Responsibility
Collections	Primary Responsibility	Secondary Responsibility
Customer Servicing	Primary Responsibility	Secondary Responsibility
Legal Recourse/Recovery	Primary Responsibility	Secondary Responsibility
Reporting	Primary Responsibility	Secondary Responsibility

#### 4.13 Miscellaneous

##### a) Information Technology Enablers:

The following processes will be enabled through IT integration (the list is illustrative one and not exhaustive):

- i) Rule based application for automation of appraisal and sanction.
- ii) Escrow type common account for disbursals as well as to appropriate loan repayments from borrowers.
- iii) MIS for disbursements, repayments due and recoveries made.
- iv) Creation of fresh products codes as per the approved co-lending policy.
- v) Calculation of income sharing on monthly basis.

- vi) Sharing of loan account Data with NBFCs for providing unified statement to the borrower by NBFCs.
- b) **Detailed Operational Guidelines and Standard Operating Procedure**  
Detailed Operational Guidelines, Standard Operating Procedure (SOP) and the Delegation of Powers (DoP) shall be framed to operationalise the CLM in terms of this broad policy framework.
- c) **Review/ Renewal/ Updation of Policy –**  
This policy may be reviewed every year so as to keep the policy in adherence to the extant guidelines as defined by the RBI from time of time. Any change in RBI / other statutory guidelines would be applicable without requiring fresh approval of this policy and such change/s shall be deemed to be a part of this policy, till the policy is comprehensively reviewed.

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