Policy for Co-Lending to Priority Sector & Non-Priority Sector
Between our Bank and Non-Banking Financial Companies (NBFCs)

Preamble:

Co lending is to improve the flow of credit to the unserved and underserved sector of 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/HFCs.

Definition:

Co-Lending means Joint contribution of credit by both the lenders, it should also involve sharing of risk and reward between Banks and NBFCs.

NBFC means Non-Banking Financial Companies (including HFCs)

Bank means Indian Overseas Bank

Our Bank will enter into CLM with NBFCs/HFC who fulfils the following criteria:

I. NBFCs/HFCs should be registered with RBI and should already be complying with the prudential norms of RBI.
II. NBFCs/HFCs should be in operation for more than 4 years.
III. The Net Worth of the NBFC/HFC should be more than Rs.200.00 crore.
IV. In preceding two years Net NPA should be below 2.50% and Gross NPA below 5.00% in each year.
V. Minimum Capital to Risk Weighted Asset Ratio (CRAR) of NBFC/HFC should be 15%.
VI. Should not be in RBI defaulters/caution list/in specific approval list of ECGC.
VII. NBFC should not be in RBI defaulters /caution list and Suit filed (Willful Defaulters), Non-Suit filed (Willful defaulters) & Non- suit filed list of CIBIL. NBFC should not be in SMA 2 & Above (SMA 0 & 1 can be considered on case to case basis on priority and proper assessment) with any Bank/FI Should have past 3 years' experience in on-lending to Priority sector.
VIII. Preferably should have Pan India presence.
IX. CLM will be entered with only those NBFCs/HFCs which are rated BBB & above and the rating should not be more than one-year-old as on the date of CLM.
X. Co-Lending will be entered with only those NBFCs/HFCs which are rated IOB-4 and above as per our Internal Risk Rating Policy (RAM –NBFC Risk Model). Internal Risk rating to be carried out by the concern vertical sponsoring the tie up proposal and finalized by Risk Management Department (RMD), Central Office.
XI. The Cap for lending under Co-lending for the Bank as a whole may be kept at Rs.1000 crores for the Financial Year 2022-23. However, individual exposure limit for each NBFC/HFC under Co-lending may be restricted to Rs.300 crores.

XII. Since CLM is a tie-up arrangement with a NBFC/HFC, in view of the same copy of our present Co-lending policy and list of schemes / products may be shared with that NBFC/HFC.

XIII. Should make profit for last 3 financial years.

XIV. Co-lending arrangement with an NBFC belonging to the promoter Group shall not be allowed.

XV. NBFCs should comply all the guidelines laid down by RBI and other regulatory authorities issued from time to time including Regulatory Capital Norms etc.,

Scheme details:

Sl. No.	Particulars	Details
1.	**Scheme(Also see Annexure I)**	**Co-Lending by banks and NBFCs including HFCs to Priority Sector/ Non – Priority Sector**
2.	Purpose of Loan	Under priority sector, based on the following category of loan i. Agriculture**:** For on lending to All agricultural and Allied activities, Food and Agro Processing activities. ii. MSME iii. Other priority sector loans. **Loans under Non – Priority Sector can also be extended**
3.	Eligibility	Any individual / proprietorship / partnership firm / company (including contractors).
4.	Applicability and sourcing of application	Branches as allocated by the Sanctioning Authority
5.	Facility	Term loan
6.	Category	Agriculture/MSME/OPS/Non Priority sector (NPS) depending on activity
7.	Amount of Loan	Maximum Rs.2.00 cr of Bank Share per Borrower, which may vary from case to case basis for individual NBFCs. Ratio of 80:20 between Bank and NBFCs respectively to be ensured for the overall loan. Bank's share will be maximum up to 80% of loan or Rs. 2 Cr whichever less.
8.	Minimum share with NBFC for Co-lending	The bank share on Co-lending (loan component of NBFC pool) be minimum of Rs 10.00 crores for each NBFC.

9.	Margin	As stipulated by Bank under the respective category of loan.
10.	Tenure	The tenure of loan under CLM will be as stipulated by our bank under the respective category of loans from time to time by the credit departments
11.	Moratorium	The moratorium is as per our banks guidelines issued by the respective category of loans by the credit departments
12.	Repayment	Repayment will be fixed based on the activity financed.
13.	Interest Rate and process of deciding Interest rate	**Rate of interest may be fixed based upon mutually agreed terms with NBFC on case to case basis**. Based on the respective interest rates and proportion of risk sharing by the Bank and NBFC, 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. NBFC 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. **An indicative illustrative for Calculation of Interest rate is given in the Annexure II.**
14.	Credit Risk rating	As applicable to the category of advances
15.	Security	the prime/collateral security under CLM: "As stipulated by Bank under the respective category of loan. On finalising the NBFC and term sheet Bank may take a view on collateral security norms. However, NBFC may also obtain collateral security for any amount and bank will hold paripassu charge on the same".
16.	Sourcing of loan Application	NBFC will source the proposal and collect the Co-brand Loan Application which has to be completed in all respect and sent to nearby allocated Branch of IOB under the signature/seal of authorized officials of NBFC along with KYC documents, financial Statement etc duly verified with originals. Though the NBFC is expected to source loans as per the mutually agreed parameters between the bank and the NBFC, bank shall not outsource its part of credit sanction component to the NBFC

17.	Pre sanction Activity	NBFC will conduct the KYC drill, field investigation, due diligence, process the application and share the same to the allocated branch. On receipt of the application, allocated Branch will also conduct the KYC verification, due diligence, pre sanction inspection independently or jointly with the NBFC
18.	Credit Appraisal and sanction	NBFC will appraise the credit application for the entire loan amount and submit the same to our designated Bank Branch. After receipt of the application by the branch and KYC along with the credit appraisal by the NBFC, the designated branch should conduct credit appraisal again based on our Bank's Norm and sanction the application, if viable, as per the extant discretionary power of the sanctioning authority. On sanction of the application, the NBFC has to sanction their portion. A Joint sanction letter quoted with all applicable terms and Conditions is to be advised to the applicant for information and acceptance.
19.	Benchmark Ratios	DSCR: Average 1.5 with Minimum 1.2 in any year (Both Average and in any year during the proposed repayment tenure.
20.	Processing Fee	As applicable to the respective sector of our Bank from time to time for the portion of Bank Loan. NBFC will decide the rate for their share of Loan. The Fees will be deposited with the common Collection Account" to be maintained with the Bank and will be shared between Bank and NBFC on case to case basis.
21.	**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 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.
22.	**Safe Custody of Documents**	As per bank's present practice, the documents executed in the respective branch are kept with branch itself. Since, it is a co-lending arrangement, the documents may be kept with NBFC/ third party repository (service provider) 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 before disbursement. **Annual declaration certificate on documents deposited has to be obtained from NBFC/Third Party Depository (Service Provider) to ensure proper control over such service.** 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 NBFC/ 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.
23.	Pre Disbursement Activity	NBFC will arrange for execution of the Joint Tripartite Loan Document amongst Borrowers / Guarantors/ Branch Official / themselves and any other Documents **wherever applicable.** **Original documents will be held with the designated branch/ NBFCs/ third party Repository (service providers) as per mutually agreed terms.** **Annual declaration certificate on documents deposited has to be obtained from NBFC/Third Party Depository (Service Provider) to ensure proper control over such service.** **A certified true copy of the documents after due execution/stamping and certificate that the original is being kept to be exchanged and held on record.** **After completion of all documentation formalities, Branch will open the Loan Account in the name of the Borrower for our**

		Bank's share and convey the Loan Account number to NBFC. Branch has to do vetting of the documents for Loan amount above Rs. 1 Cr. NBFC will conduct document audit and confirms that the documents are duly executed and are enforceable. Simultaneously, NBFC will also sanction their portion of Loan.
24.	Disbursement	On completion of the post sanction/pre disbursement formalities, receipt of the Margin Money, parking their share of co-participation i.e. 20% of the sanctioned amount in the designated IOB-NBFC Co-Lending Disbursement Account", NBFC will raise the Disbursement request to the Branch. Then Branch will remit Bank's share of 80% of the co-participation amount by debiting the Borrower's Loan Account to the above mentioned "IOB-NBFC Co-Lending Disbursement Account". Then NBFC will release the Loan amount to the Borrowers. In case of disbursement is made for purchase of Equipment/Machineries then payment to the supplier/manufacturer/vendor will be made and the original invoice/bill etc. duly stamped/sealed/signed by the manufacturer under hypothecation to Bank on behalf of both IOB and NBFC will be held at the Bank. The disbursement has to take place within the next working day.
25.	Insurance	Comprehensive insurance policy with endorsement in favor of Bank to be obtained by NBFC on behalf of IOB and NBFC. Our Bank has to authorize NBFC for arranging insurance on total loan amount. Our Bank's Alliance Partner may also solicit insurance business from the customers under this program, in line with the terms and conditions of asset insurance, as applicable to Insurance Partner. The insurance claim proceeds, if any, will be collected in the "IOB-NBFC Co- Lending collection Account" and will be proportionately shared.
26.	Post Disbursement Activity	**The Bank / NBFCs/ third party Repository (service provider) as per mutually agreeable terms will create the hypothecation charge with the appropriate authority, register charge with Registrar of Companies, CERSAI etc. in applicable cases, for the full value of the loan on behalf of Bank and NBFC.** **Confirmation has to be obtained from NBFC/Third Party Repository (Service Provider) having created such charges.**

		Original documents will be held with the designated branch /NBFCs/ third party Repository (service provider) as per mutually agreeable terms. **Sharing of the copy of documents and confirmation of holding the originals should be exchanged.** Branch will verify the end use by conducting the post disbursement inspection jointly with NBFC or separately by bank and NBFC and in which case the reports to be shared to other lending partners and share the report with original report to be kept at the Branch. CIBIL reporting will be done by both the lenders separately in accordance of the agreed lending ratio. NBFC as a lender or as an agent of the lenders shall not release the borrower/ guarantor from the liability or close the accounts of the borrower in their books or issue any sort of no objection/clearance /no dues or any certificate to the borrowers/guarantors or to anybody in respect of the credit facility (whether in respect of the NBFC funding or bank funding) without the prior consent of the bank in writing.
27.	Delayed payment Interest	2% per annum on Bank's portion, to be collected in the designated collection account and shared with the bank. For NBFC portion, the delayed payment interest will be at their discretion.
28.	Other charges	Various charges like documentation charges, service charges, legal charges, stamping charges, Cheque /NACH bouncing charges, etc. are to be realized from the borrower as per the policy of our Bank and NBFC and will be shared accordingly.
29.	Prepayment charge	2% on Bank's portion, to be collected in the designated collection account and shared with the bank. For NBFC portion, the delayed payment interest will be at their discretion.
30.	Sanctioning Authority	As per delegated discretionary power.
31.	Marketing Strategies	IOB and NBFC will jointly & severally undertake publicity arrangement like printing & displaying banners, posters & leaflets to popularize the scheme.
32.	Collection	NBFC will ensure collection, as per the extant Collection Policy, of monthly instalments through various modes like NACH, PDC, SI, etc. favoring "IOB-NBFC co-Lending Collection Account" including when there is an overdue and deposit the same with the designated collection account. The proportionate share will be remitted to IOB and NBFC on daily basis by sending the details in the format with loan Account details for crediting to the

		respective loan account number of our Bank directly and to NBFC for credit to their individual loan accounts.
33.	Terminal Losses	Terminal losses Account wise will be shared in the same proportion asthat of the funding Ratio byBank and NBFC
34.	Recovery of the Loan on slippage.	In case of persisting default NBFC will undertake all possible recovery options available to them viz. Section 138 u/s of NI Act, SARFAESI, NCLT, Suit filing, Arbitration, conciliation etc as both lenders may deem fit on a case to case basis on behalf of both ie Bank and NBFC for the entire amount. As per extant regulations including SARFAESI Act, NBFC will take repossession of the asset(s), dispose of the asset, collect the recovery proceeds in the designated collection account and proportionately share the proceeds with our Bank. Recovery charges collected from the Borrower, if any, will not be shared with our Bank including the GST collected, if any. Repossession sale accounting will be done at 100% in NBFC Books, since GST liability will be paid by NBFC to Govt. Authority and Tax Invoice on the New Buyer will be raised by NBFC. NBFC will transfer share of basic sale value to our Bank as per agreed terms. Our Bank may also initiate recovery actions available to Banks including filing of suit before DRT, SARFAESI etc. in consultation with NBFC. Any loss, consequent to the Sale of the Assets as a part of recovery measure, which is to be written off, is to be considered as per Bank's policy on intimation from NBFC.
35.	Provisioning/Reporting Requirement	Each of the lenders shall follow its independent provisioning requirements including declaration of account as NPA, 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.
36.	Review and Monitoring of the loans under Co-Lending arrangement	There will be two Committee consisting of officials from both Our Bank and NBFC for monitoring the arrangement viz. 1. **Steering Committee**: For taking policy decisions as per their respective organization policies. Bank will be

		represented by GM of Agri and Rural Initiatives Dept, MSME, Retail and Credit Monitoring (Any Two) and NBFC will be represented by their Heads of Finance, Risk, Operation, Collection, Audit etc. as authorized by NBFC. Frequency of the meeting will be at least once in a year or as and when required. 2. **Monitoring Committee:** For monitoring the portfolio, removing the operational issues etc. faced by the arrangement. Overall Review of the loans sanctioned Bank will be done during the Committee meeting. Committee meeting will be represented by the GMs of Agri and Rural Initiatives Dept, MSME, Retail and credit monitoring and NBFC will be represented by their Business Head, Risk Head, Collection Head and Operation Head. Frequency of the meeting will be at least once in a quarter. 3. Loan Balances Account wise to be reconciled at end of each quarter. 4. The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and NBFCs to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
37.	Designated Disbursement and Collection Account	There will be two Accounts, one in the name of "IOB-NBFC Co-Lending Disbursement Account" for deposit of Margin Money and NBFC/Bank share of co-participation amount and disbursement of the Loan and the other one in the name of "IOB-NBFC Co-Lending collection Account" for collection of Processing Fees, EMIs, Charges etc., to be maintained at IOB. The Accounts will be operated by NBFC and will be reconciled by NBFC and they will share the report with IOB on a weekly basis. The summarized position will be placed to the monitoring Committee. NBFC, on a daily basis, has to reconcile the Receivable/Received position of Subsidiary ledger Borrower- wise with the amount Received account- wise in "IOB-NBFC Co-Lending Collection Account", remitted to IOB and the Subsidiary ledger Account Borrower wise maintained at IOB.
38.	Assignment	Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.

39.	Business Continuity	Both the banks and the NBFCs 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.
40.	Scheme Code	Separate Scheme code will be opened with Sub-sector Codes will be as per the nature of the Borrower in Finacle Platform.
41.	IT Platform	For effective Turnaround Time, Bank and NBFC upon mutual consent may utilize the services of any IT platform for exchange of information online followed by hard copies. Bank will be given access to view the Subsidiary ledger Borrower wise being maintained at NBFC's end containing the Receivable/Received position.
42.	Customer Interface	NBFC will handle all the customer interaction, customer queries, issue the joint Account Statements etc., and Bank in no circumstances will issue any statement, correspondence without the mutual consent of NBFC.
43.	Stationeries	All the Stationeries to be used will be cobranded will be printed by Bank/NBFC after mutual consent with prior vetting.
44.	Indirect Tax (GST)	**GST Appropriation Method** - NBFC will raise Fees (Processing Fee) Tax Invoice with GST on full amount on customer - IOB will raise separate Tax Invoice for Fees (Processing Fee) with GST, in proportion to their share - NBFC will pay the IOB share of Fees including GST amount to IOB.
45.	Direct Tax (TDS)	**Tax deducted at Source (TDS)** • Customer is responsible to deduct TDS on any fees paid and interest paid to the NBFC as per rules but they are not to deduct any TDS on any fees paid and interest paid to the bank. • Customer may deduct TDS on interest amount paid to NBFC. In such a scenario NBFC will take the credit in its account. • NBFC will refund 100% value of the TDS certificate to the customer if the customer has paid instalments in full, without deducting TDS

46.	Pay out to NBFC	The percentage of pay outs to NBFC for sourcing and collection/servicing etc. the loan will be decided on case to case basis on mutually agreed terms at the time of Co-Lending arrangement
47.	Grievance Redressal	It shall be the responsibility of the NBFC to explain to end borrower regarding the difference between products offered through the co-lending model as compared to its own products. The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, 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.
48.	**Non-Priority Sector Loans**	**Bank can enter into lending arrangements for Non-priority sector lending in the nature of co-lending as per the board approved policies, subject to compliance with all extant regulations and prudential norms, including the guidelines on outsourcing and transfer of loan exposures**.
49.	**Deviations**	**Deviations in the policy will be permitted by MCB on case-to-case basis**.
50.	Remarks	This is a model scheme for co-Lending arrangement between our Bank and NBFCs and a few mutually agreed terms and conditions may vary on case to case basis of Co-Lending arrangement but without deviating the essential features of Co-Lending of loans between Bank and NBFCs for lending to Priority and Non priority Sector as stipulated by RBI vide their circular dated 05.11.2020.

The following points are to be included in the scheme details: Annexure I

<table>
<tr><th>Particulars</th><th>Type 1
Normal 80:20 ratio Co-lending</th><th colspan="3">Type 2
(Akin to direct assignment transaction)</th></tr>
<tr><td rowspan="5">Discretion for finalizing NBFC, product details, term sheet and tagging of Region/ branch</td><td rowspan="5">CAC can approve the facility under Co-lending, finalize the NBFC, product details, term sheet and tagging of Regions/ Branches.

However, the loan to each applicant under Co-lending can be sanctioned by respective sanctioning authority as per the prevailing discretionary power.</td><td colspan="3">Under Co-lending, 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.
Bank shall follow Co-lending policy along with Bank Policy on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flow and the underlying Securities except the following points.</td></tr>
<tr><td>Exceptions</td><td>Existing guidelines of our Bank under Direct Assignment policy</td><td>Proposed suggestions for Co-lending</td></tr>
<tr><td>Minimum Holding Period (MHP)</td><td>Originating banks/FIs/NBFCs can securitize loans only after these have been held by them for a minimum period in their books.</td><td>The asset created/ loans originated by NBFC shall be within one quarter. Bank may take a view on case to case basis.</td></tr>
<tr><td>Due diligence</td><td>Due Diligence exercise through third party (External Rating agency/ CA firm)</td><td>Due diligence to be done by Bank itself.</td></tr>
<tr><td>Delegation</td><td>Only MCB can permit the Pool buyout facility as per DA policy</td><td>CAC can be provided delegation to approve the co-lending facility.</td></tr>
<tr><td rowspan="2"></td><td rowspan="2"></td><td colspan="2">The underlying exposure diversified amongst various states, at least 5 states and exposure in any state should not have more than 20% share or while selecting pools from various HFCs, it is to be ensured that geographical concentration in single state is not more than 20%.</td><td>Since Co-lending is proposed from various branches, Bank may take a view on case to case basis.</td></tr>
<tr><td colspan="3">The rating of the NBFC shall be as per Co-lending policy, the asset created/ loans originated by NBFC shall be within one quarter (Bank may take a view on case to case basis) and the due diligence to be done by Bank itself.
CAC can be given delegation to approve the facility under Co-lending, finalize the NBFC, product details, term sheet and tagging of Regions/ Branches.</td></tr>
</table>

An indicative illustrative for Calculation of Interest rate is given in the Annexure II.

Scenario 1: Fixed interest rates

	Example 1		Example 2	
Blended interest rate calculations	**Bank**	**NBFC**	**Bank**	**NBFC**
Benchmark Interest rate	8%	9%	8%	9%
Spread	2%	3%	2%	3%
Interest rate to consumer	10% (A)	12 %(B)	10%(A)	12%(B)
Loan contribution ratio	80% (C)	20%(D)	70% (C)	30%(D)
Blended interest rate (A*C)+ (B*D)= E	10.40%		10.60%	

Scenario 2: Floating interest rates

	Example 1		Example 2	
Change in weighted Average interest rate	**Bank**	**NBFC**	**Bank**	**NBFC**
Benchmark Interest rate	8% (A)	9% (B)	8% (A)	9% (B)
Loan contribution ratio	80% (C)	20%(D)	70% (C)	30%(D)
Weighted Average Benchmark Interest Rate (X=A*C+ B*D)	8.20%		8.30%	
Spread	2% (E)	3% (F)	2% (E)	3% (F)
Weighted Average Spread (Y= E*C+F*D)	2.20%		2.30%	
Weighted Average interest rate offered to customer at the time of disbursement (X+Y)	10.40%		10.60%	
Change in Benchmark Rate	0% (F)	+1% (G)	0% (F)	+1% (G)
Revised Weighted Average Benchmark Interest Rate X'= [(A+F)*C+ (B+G)*D]	8.40%		8.60%	
New Weighted Interest Rate (X'+Y)	10.60%		10.90%	