# FIDC

## Finance Industry Development Council

*(A Representative Body of Assets and Loan Financing NBFCs)*

101/103, Sunflower, 1st Floor, Rajawadi Road No.2, Ghatkopar (East), Mumbai – 400 077

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July 07, 2020

To
Shri Shivam Narain Srivastava
The Manager
Planning & Co-ordination Division
Financial Inclusion and Development Department
Reserve Bank of India, Central Office
Fort, Mumbai

**Respected Sir,**

**Re.: Representation on amendment to RBI Guidelines on co-origination of loans**

We thank you for seeking our feedback and suggestions on the RBI guidelines on co-origination of loans by banks and NBFCs-ND-SI for lending to priority sector vide its circular no FIDD.CO.Plan.BC.08/ 04.09.01/ 2018-19 dated September 21, 2018, ("the Guidelines"). Based on our interactions with the various member NBFCs, we observe that despite the most honourable intentions to expand credit to the under-served sections and informal segment, the uptake of business under co-origination has not been very encouraging. We give below our responses to your queries as follows:

a) Whether NBFCs-ND-SI have difficulties in adhering to the guidelines on co-origination?

As desired, we share below the difficulties being faced by the NBFCs in adhering to the guidelines and operational challenges being encountered:

1. The current guidelines *inter alia* stipulate the following requirements:

    a. Both the lenders will conduct respective credit appraisal of the individual loan proposals.
    b. The disbursal of the loan will take place from the common escrow account in which both the bank and NBFC will pool their respective contribution without maintaining a float.
    c. Both the lenders will create a framework for day to day monitoring of the individual loan accounts.

2. We have experienced the following challenges/difficulties in operating under the guidelines:

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a. Our members largely finance the MSME segment and small truck operators, contractors and farmers. A large part of these customers are first-time borrowers. They borrow loans from NBFCs at a higher rate because of simple documentation, faster processing, door-step service and higher loan amount (LTV) compared to a bank.

b. As per the experience, while the banks and NBFCs have formulated a board approved policy for lending to such customers based on a common lending programme, the requirement of dual credit evaluation by both the lenders has faced lot of hurdles resulting in delays and difference in interpretation on case to case basis, resulting in needless difficulties for the customer.

c. Under the normal system, the NBFCs disburse the loan immediately thru RTGS in the dealer's name or customers' account in refinance of assets, but as per the guidelines, the disbursal is required to be done from the common escrow account. It is cumbersome and operationally challenging that both the lenders have to transfer funds before each disbursal. In such situations either the bank or the NBFC may end up maintaining idle funds overnight.

d. The guidelines prescribe both the lenders to have a framework for day to day monitoring of individual loan accounts whereas the NBFCs are present at the ground and service the individual borrowers and it requires lot of unnecessary interactions between the bank and the NBFCs to comply with this requirement.

e. Given the nature of customers being informal and FTB, the banks many times insist on buy back of delinquent accounts by the NBFCs even though the minimum risk participation is just 20% by the NBFCs as per the guidelines. The insistence on a buy-back (even if demanded informally) is not in line with the spirit of the guidelines.

f. Delays in opening customers' savings/current account by the bank add to the difficulties.

g. Lack of system integration between the banks' and the NBFCs' software is a major challenge (of course though not a regulatory matter).

h. NBFCs follow Indian Accounting Standard (Ind-AS) while banks are still on the old I-GAAP. This leads to differences in NPA recognition and provisioning, income recognition and amortisation of

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loan acquisition related expenses. There is no clarity on reconciling these differences across the two sectors.

b) **Suggestion/ Recommendation:**

In order the make the guidelines easy to operate and be successful in terms of credit offtake improving for the priority sector comprising micro credit and new to credit customers and utilising the distribution reach of the NBFCs and lower cost of funds of the banks, we make the following suggestions/recommendations for your kind consideration.

1. Post approval of credit policy on co-origination of priority sector loans by the boards of the bank and NBFC, the NBFC being the originator and servicing agency should be tasked for individual credit appraisal in accordance with the jointly approved credit criteria and fulfilling KYC norms. The bank should be allowed to conduct 100% audit of all the files within a time period of 30 days post disbursal as the files would be completed and sent from the tier locations to the HQ/nominated branch of the bank. In case any of the files are found to be non-compliant with the credit norms, the NBFC may be asked to book the entire 100% loan in its books and service the same from its own funds. It will significantly ease the process and retain the advantage of a NBFC giving loan to the informal segment and new to credit customers. This will also reduce the difficulties for the customer.

2. The NBFCs are well capitalised and have their own loan book as well and therefore, they may be allowed to disburse the loan from an escrow account to be funded by themselves and at the end of the day, the participating bank may transfer its share in the said escrow account and it will simplify the process of disbursal.

3. Being the servicing agent, monitoring of the customer account must be the NBFCs' responsibility. The bank may do a random sample inspection of the customer to ensure the process is being followed properly by the NBFCs.

4. Opening of savings/current accounts must be done on an automatic basis on the approval of the loan so that the customer does not need to do any further paperwork and the loan disbursement can be made expeditiously.

5. The RBI should give clarity in terms of accounting treatment in case the differing accounting standards mandate differing accounting treatment in such cases.

6. Banks must be mandated to open a separate "Co-origination Department" to ensure the process works smoothly and any branch-level issue can be escalated and solved expeditiously.

***We once again thank you for giving us the opportunity to share our experience with your good self and sharing our suggestions on how to make the co-origination guidelines highly successful. We also seek an audience with your good self to explain the above points and provide further clarifications, if any.***

Yours faithfully,

**For FINANCE INDUSTRY DEVELOPMENT COUNCIL**

**MAHESH THAKKAR**
**DIRECTOR GENERAL**
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