कार्पोरेशन बैंक (सार्वजनिक क्षेत्र का अग्रणी बैंक) प्रधान कार्यालय, डा पे सं. 88 मंगलूर - 575 001	e-CIRCULAR	Corporation Bank (A Premier Public Sector Bank) Head Office, PB No.88, Mangalore – 575 001
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TO ALL THE BRANCHES / OFFICES

Subject : POLICY ON JOINT LENDING ARRANGEMENT

HIGHLIGHTS

Bank has framed Policy on Joint Lending Arrangement in line with the guidelines issued by Ministry of Finance and is implemented with immediate effect.

1. With a view to introducing flexibility in Credit Delivery system and to facilitate smooth flow of credit, various regulatory prescriptions regarding conduct of consortium / Multiple Banking / Syndicate Arrangement were withdrawn by RBI in October 1996. It is now common to find large borrowers availing term loan as well as working capital limits from a number of financial institutions and commercial banks partly because of the large size of borrowing and partly to have a degree of flexibility in their operations.

2. Most such large borrowers having multiple banking relationships have independent arrangement with each lending institution. The security offered to each institution is separate and no formal understanding exists between different lenders financing the same borrower. Further, lenders usually sanction loans / limits on different terms and conditions. This arrangement, however, goes contrary to principles of credit discipline which require a wholesome view of entire operations of a customer to be taken by the lender and the assessment and monitoring of credit needs to be done in totality.

3. In the background of some high value frauds coming to light after the withdrawal of regulatory prescriptions regarding conduct of consortium/ multiple banking arrangement, the Central Vigilance Commission and other authorities had expressed concerns and had attributed the incidents of frauds mainly to lack of effective sharing of information about the credit history and

conduct of account of the borrowers amongst various lending institutions. In this regard, guidelines were issued by RBI to banks to strengthen their information back-up about the borrowers enjoying credit facilities with multiple banks. RBI has felt that this arrangement is also not working satisfactorily with frauds continuing to come to light.

4. In addition to the above some other major pitfalls observed by RBI in the Consortium Arrangement are as under:

a) Lack of cohesiveness and transparency among the member Banks, specifically in respect of

- Timely sharing / exchange of complete information in respect of conduct of accounts, IRAC status etc.
- Holding of quarterly Consortium meetings on regular basis as mandated
- Important matters such as status of accounts, outstanding, overdue, operations in the accounts, audit observations, sanction of ad-hoc limits, dealings of the borrower with banks outside the Consortium, adverse news items/ information in respect of the borrowers etc. are not discussed in the meetings
- Proper appraisal and assessment by the leader.

b) Undue delay in processing the loan application, sanction, documentation etc. causing project delays, cost overruns etc.

c) Lack of due diligence, as most of the banks are guided by the disclosures made by the borrowers and do not make independent inquiries.

d) Withholding of vital information by Consortium leaders/ member banks in regard to the account, which could have significant impact on the other banks' interests.

e) Non-acceptance of inter-se agreements, which form the backbone of any Consortium Arrangement, by all member banks, or unilateral amendments/ additions/ deletions by some member banks, or incorporation of all terms and conditions/ responsibilities of every member bank, making the agreements unwieldy.

f) Unhealthy competition amongst member banks to grab more business, offer finer rates of interest, margin concessions, processing charges etc.

g) Sanction of Ad-hoc limits by non-member banks without the knowledge and approvals of Consortium, which leads to over financing resulting in diversion.

h) Above all, the complete absence of any mandated or self-imposed timelines for taking decisions on several issues/ requests, with the delay invariably affecting the borrowers detrimentally.

5. On the other hand, RBI has also observed that in case of Multiple Banking, there is hardly any credit discipline among the stakeholders.

6. With a view to inculcate the required financial discipline in the borrowers and enable financing banks to take informed decision on credit matters, the policy on Joint Lending Arrangement [JLA] was evolved by Department of Financial Services [DFS] and circulated the banks.

7. On the basis of the guidelines issued by the Ministry of Finance, Bank has framed a Policy on Joint Lending Arrangement. The Policy guidelines is furnished in Annexure -1.

8. **Salient features of Policy on Joint Lending Arrangement is as under:**

- The Joint Lending Arrangement Scheme shall be applicable to all lending arrangements with
    - Single borrowers enjoying aggregate credit limit (both fund based and non-fund based) of Rs.150 crore and above involving more than one Public Sector Bank.
    - All non-investment graded borrowers (External Credit Rating [ECR] below BBB or equivalent), irrespective of the amount of exposure.
- In the case of borrowal accounts which do not fall under the criteria, the Bank may opt to enter into a JLA.

- In case of borrowers already enjoying aggregate limits falling under the above mentioned criteria under multiple banking arrangement, Bank which has extended the highest credit, or any other Bank as mutually agreed by Member Banks, would become the leader of the JLA and take initiative for holding the meeting of all financing banks within 3 (three) months from the date of approval of the policy and ensure that a formal JLA lending arrangement is established within 3 (three) months, thereafter.

- To keep JLA size manageable, the minimum share of a member shall be;
    - 10% of the aggregate working capital limits in respect of borrowers enjoying aggregate working capital exposures (FB & NFB) below Rs. 1,000 crores.

- Minimum Rs 100 crores of working capital limit in respect of borrowers enjoying working capital exposures of Rs. 1,000 crores and above.

➢ In case of borrowers enjoying credit facilities under multiple banking arrangements with both public and private sector banks, the public sector banks shall form a joint lending group and invite the private sector banks also to participate subject to the terms and conditions spelt out in this policy and in case of reluctance, the public sector banks may go ahead and form joint lending group on their own amongst themselves.

➢ In order to make lending under JLA effective and to ensure that the norms applicable to JLA are accepted by all the member banks and the borrowers in a timely manner, member banks may constitute a Sub-Committee. This shall also ease the customer to get certain tasks done, such as obtaining NOC, etc.,

➢ Existing member banks to take care of the additional requirements in proportion to their exposure. If any bank has a difficulty on account of policy issues or exposure ceiling/ prudential norms to take additional exposure, then its share in full or part may be offered to the other JLA members. If no member bank is in a position to take the share, a new lender willing to take up the enhanced share can be inducted after obtaining NOC from existing member banks. Sub-committee will examine the requirement only if cost over-run is significant.

➢ To meet the emergent credit requirement of the borrower, an upfront ad hoc facility upto a maximum of 10% of the FB + NFB limits shall be sanctioned at the time of sanction/ renewal of limits itself.

➢ Time norms set for appraisal and sanction of credit limits.

Particular	Fresh / Enhancement	Renewal
Time Norms for appraisal and Sanction of Credit limits.	90 days	45 days
Of which, time norms for-		
➢ Appraisal by the Lead Bank/Sub- committee	35 days	20 days
➢ Circulation of draft appraisal note by the Lead Bank after convening the JLA meeting	10 days	10 days

➢ Sanction by the member Banks in JLA telescoping with Lead bank/sub-committee proposal	45 days	15 days

- The Lead Lender may be permitted to charge a **suitable annual** Fee **on** the Total Borrowing (Fund Based and Non-Fund Based) as compensation for making Joint Lending Arrangements and for hosting meetings of the Joint Lending Group.

- The terms and conditions for different categories of credit facilities, except pricing, as finalized by the JLA, shall be uniformly applied by all member-banks. Thus, it shall not be open to any member-bank to waive the penal interest or vary the margin stipulated unilaterally.

- Status of the borrower across all lenders shall have to be the same i.e. if any account of the borrower turns NPA with any of the JLA lenders, then all the lenders in the JLA shall treat the accounts of the borrower as NPA.

- Recovery effort of the JLA shall be common and shall take a holistic view of the dues of all member banks.

- **Bank shall not extend any additional banking facility,** or extend bill limits, guarantees/acceptances, letters of credit, etc., without concurrence of existing single bank/ consortium/multiple bankers.

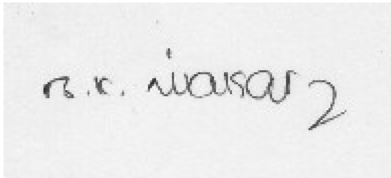
- Member-bank may be permitted not to take up its enhanced/incremental share. However, it cannot be permitted to leave the JLA before expiry of at least two years from the date of its joining the Consortium.

- Members shall not be ordinarily permitted to exit from stressed accounts. Exit may be allowed in exceptional cases, with the approval of all JLA members, at a hair-cut which shall be decided by the member banks.

- The existing monitoring system such as obtention of financial follow up reports, exchange of information etc., shall be uniformly adopted by all banks/ FIs.

- It shall be ensured that export Credit to any borrower under JLA shall be extended only by those Banks that have extended Working Capital Loans to the borrower.

9. All our branches and other offices are advised to note the above and for strict adherence. Further, branches are also advised to initiate necessary steps for conversion of existing eligible borrowal account under Joint Lending Arrangement within the stipulated time frame.



[B K DIVAKARA]
GENERAL MANAGER

Note: Hindi version of the Circular follows.