

F.No.7/48/2012-BOA
Ministry of Finance
Department of Financial Services

Jeevan Deep Building
Sansad Marg, New Delhi
Dated : 31st May, 2012

**The CEOs of
All Public Sector Banks/ Financial Institutions**

Sir,

In the background of some high value frauds coming to light after the withdrawal of regulatory prescriptions regarding conduct of consortium arrangement on lending, being mainly attributable to lack of effective sharing of information about the credit history and conduct of account of the borrowers amongst various lending institutions, the Reserve Bank of India (RBI) had reexamined the matter in consultation with Indian Banks' Association (IBA) and concluded that there was a need for improving the sharing/dissemination of information amongst the banks about the borrower. Accordingly detailed guidelines were issued by RBI on 10th February 2009 to the banks to strengthen their information back-up about the borrowers enjoying credit facilities with multiple banks. This arrangement has however not been working satisfactorily with frauds continue to come to light.

2. With a view to inculcate the required financial discipline in the borrowers and enable financing banks to take informed decision on credit matters and as a risk mitigant, the issue was examined in this Department and a draft policy on Joint Lending Arrangements (JLA) was prepared. This policy was sent to all Public Sector Banks (PSBs) and the IBA on 23rd March 2012 for their suggestions and feedback.

3. The suggestions and feedback received from the PSBs and IBA have been examined in this Department and the policy on JLA has been evolved after incorporating the necessary modifications/ suggestions; and it has been decided to reintroduce ground rules governing JLA as per the policy so evolved. This policy is enclosed herewith which may be taken to the Board for adoption and implementation.

4. You are requested to place the same before your Board of Directors for adoption and implementation.

Encl. As above.

Yours faithfully

(Pravin Rawal)
Deputy Secretary to the Government of India
Ph – 011-23346874
email – dirboa-dfs@nic.in, boa@nic.in

Copy to:

1. Chairman, IBA with reference to their letter No. C&I/JLA/2012-13/5771 dated 11/05/2012 and with a request to design and circulate a set of documents as mentioned in sub para (i) of para- 4 of the Draft Policy-JLA.
2. All Govt. Nominee Directors on the Boards of PSBs.

Policy on Joint Lending Arrangement

Background

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 arrangements were withdrawn by RBI in October 1996.
2. 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.
3. 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 that a wholesome view of entire operations of a customer must be taken by the lender and the assessment and monitoring of credit needs be also done in totality.
4. In the background of some high value frauds coming to light after the withdrawal of regulatory prescriptions regarding conduct of consortium 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. This had led RBI to examine the matter in consultation with IBA and conclude that there was need for improving the sharing/dissemination of information among the banks about the borrower. Accordingly detailed guidelines were issued by RBI on 10/02/2009 to banks to strengthen their information back-up about the borrowers enjoying credit facilities with multiple banks. This arrangement is however not working satisfactorily with frauds continuing to come to light.

5. With a view to inculcate the required financial discipline in the borrowers and to enable financing banks to take informed decision on credit matters and as a risk mitigant it has been decided to reintroduce ground rules governing Joint Lending Arrangement as per the following guidelines. The Policy has been evolved after consulting the Public Sector Banks and the Indian Banks Association. The Policy may be taken to the Board for adoption and implementation.

POLICY ON JOINT LENDING ARRANGEMENT

Formation of the Joint Lending Arrangement (JLA)

6. The scheme shall be applicable to all lending arrangements, with a single borrower with aggregate credit limits (both fund based and non-fund based) of Rs.150 crore and above involving more than one Public Sector Bank.
7. Borrowers having multiple banking arrangement below Rs.150 crore may also be encouraged to come under joint lending arrangement, so that the wholesome view of the assessment of credit requirement as well as the entire operations of the customers can be taken by banks.
8. Banks/consortia should treat borrowers having multi-division/multi-product companies as one single unit, unless there is more than one published balance sheet. Similarly, in the cases of merger, the merged unit should be treated as a single unit. In case of split, the separated units should be treated as separate borrowal accounts provided there is more than one published balance sheet.

Applicability of JLA

9. **New Borrowers**-Lending under joint arrangement shall be mandatory for Public Sector Banks for borrowers seeking credit limits of Rs.150 crore and above by way of term loan, working capital and non-fund based facilities, from multiple banks. The Bank from which the borrower has sought the maximum credit, will be the designated Lead Bank for the JLA.
10. **Existing Borrowers**- In case of borrowers presently enjoying aggregate limits in excess of Rs.150 crore under multiple banking arrangement the 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 adoption of the policy by the Banks and ensure that a formal JLA lending arrangement is established within **3 (three) months**, thereafter. Thus, all such exposures shall be brought under JLA **within 6 months** of the adoption of the policy. Further, in the case of borrowal accounts enjoying credit limits below Rs.150 crore from more than one bank, the concerned banks will be free to enter into a JLA at their option.

Existing borrowers seeking enhanced limits

11. In case of borrowers enjoying aggregate credit limits below Rs.150 crore from more than one bank, where further enhancement would take the aggregate limits to Rs.150 crore or more, should be considered jointly by the financing banks concerned **and the bank, which takes up the largest share of the limits, shall be deemed to be the leader of the formalized JLA.**

Existing Consortium Arrangements

12. The borrowers who are already having formal consortium arrangement with limits below Rs.150 crore may continue under such consortium arrangements.

Institutions to be included in JLA

13. It would be open to a borrower to choose his bank/(s) for obtaining credit facilities as also for the bank/(s) to take a credit decision on the borrower.

14. In case of borrowers enjoying credit facilities in excess of Rs.150 crore under multiple banking arrangements with both public and private sector banks, the public sector banks should form a joint lending group and invite the private sector banks also to participate and in case of reluctance, the public sector banks may go ahead and form joint lending group on their own amongst themselves.

15. In case of borrower availing term loan from All India Financial Institution either singly or jointly with bank(s) the said AFI shall be inducted as a member of joint lending group and be subjected to the mandatory ground rules governing joint lending including credit limit of Rs.150 crore and above.

16. There will be no ceiling on number of banks in a JLA, whether it is obligatory (credit limits of Rs.150 crore and above from more than one bank) or voluntary (credit limits below Rs.150 crore from more than one bank) in nature. To ensure meaningful participation, **ideally** share of a bank as a member of the JLA should be a least **10** per cent of the credit limits or Rs.25 crore, whichever is higher, for exposures of Rs 150 crore and above. For exposures below Rs 150 crore, the **minimum** share will be 10% of the exposure.
17. In the cases of existing JLA, if a member-bank is unable to take up its enhanced share, such enhanced share in full or in part could be reallocated among the other existing willing members. In case other existing member-banks are also unable to take up such enhanced share of an existing member-bank, a new bank willing to take up the enhanced share may be inducted into the JLA.
18. While a member-bank may be permitted not to take up its enhanced/incremental share, it cannot be permitted to leave a JLA before expiry of at least two years from the date of its joining the JLA. An existing member-bank may be permitted to withdraw from the JLA after two years provided other existing member-banks and/or a new bank is willing to take its share by joining the JLA.
19. In cases where the other existing member-banks or a new bank are unwilling to take over the entire outstanding of an existing member desirous of moving out of the JLA after the expiry of above-mentioned period of two years, such bank may be permitted to leave the JLA by selling its debt.
20. Once a JLA (obligatory or voluntary) is formed, entry of a new member (unless mentioned otherwise under the 'Fresh Guidelines') into a JLA should be in consultation with the JLA.

Terms and Conditions of Operations of JLA

21. The ceilings on a bank exposure to a single borrower or to a 'group' of borrowers will continue to be in force, as hitherto, and under no circumstances, a bank shall exceed the prudential exposure limits applicable to it.

22. In the case of borrowers enjoying credit limits of Rs.150 crore and above from one bank and/or from a JLA of banks, as the case may be, no other bank shall extend any additional banking facility, or open current accounts, or extend bill limits, guarantees/acceptances, letters of credit, etc., without the concurrence of the existing single bank/JLA. This condition will also apply in the case of JLAs formed on a voluntary basis.

23. Banks participating in term loans extended to a borrower should normally also provide working capital finance. However, if so warranted, other banks may also provide working capital finance, subject to compliance with other conditions contained in these guidelines.

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

25. **Asset Classification**- Since the counterparty for all the lenders is the same, 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 will treat the accounts of the borrower as NPA. This will prevent undue leverage in the hands of the borrower and will also incentivize early resolution of any irregularity with all the lenders.

26. **NPA Recovery**- The JLA will have Common Documentation and Common Asset Classification. In view of this the recovery effort of the JLA will also have to be common and will take a holistic view of the dues of all member banks. Disposal of assets of the borrower for recovery of these dues will be in compliance with Department of Financial Circular number 23/3/2012-DRT dated April 23, 2012, as given in Annexure-1

27. **Fees-** All the member banks will be permitted to charge Processing and Inspection fees as per their Schedule of Fees. Documentation will be common and as such a common Stamp Duty will be payable.

28. However, in cases of credit facilities extended/to be extended to 'sick' and 'weak' units, banks will be guided by extant guidelines issued/to be issued by Reserve Bank of India.

29. Quantum of credit, will be decided by JLA. Within the appropriate mandate governing functions of a JLA, its members will enjoy the freedom to sanction an additional credit upto a pre-determined percentage in emergent situations/contingencies. Lead bank, however, should inform other members immediately about such sanction together with their pro-rata share in the additional limits.

30. Further, individual banks/JLA should review the borrowal accounts **as per RBI guidelines** on the basis of audited statements for the year immediately preceding the last accounting year and those of last accounting year (provisional statements of accounts may be seen in case audited statements for the last accounting year are not available), provisional estimates of for the current year and the projections for the next year. Consequently, individual banks/JLA, at their discretion, may release funds in respect of the additional credit requirement during or before the second quarter of the current accounting year. The remaining credit could be released consequent to submission of audited results provided there is no significant difference between the provisional estimates and the audited results.

31. **In capital intensive projects with large term loan component, it would be open to the banks to have a separate consortium / arrangement for term loan and working capital requirements.**

Processing Time

32. It is necessary that lead bank and member bank(s)/institution(s) ensure that formal joint lending arrangement does not result in delay in credit delivery. The Lead Lender will make all efforts to tie up the Joint Lending Arrangement within 90 days of taking a credit decision regarding the proposal.

33. Quite often non-availability of data or submission of incorrect data or non-receipt of required financial statements results in banks/JLA being not able to take decisions within a stipulated period of time. These data/statements include, among others, audited financial results for the last two years, estimated and projected results for the current and subsequent years respectively. More often than not borrowers require an average time of at least six months to obtain audited financial statements. Considering all these aspects as also available technology, the following maximum time-frames are prescribed for formal disposal of loan proposals provided applications/proposals are received together with required details/information supported by requisite financial and operating statements:

Proposals for sanction of fresh/enhanced credit limits	90 days (45 days)
Proposals for renewal of exiting credit limits	45 days (30 days)
Proposals for sanction of ad-hoc credit facilities	30 days (15 days)

Note: Figures in brackets are the maximum time-frames for sanction of export credit limits.

33. In cases, where banks/JLA are unable to adhere to the recommended maximum time-frames for disposal of loan applications/proposals, borrowers will be free to bring in a new bank or new banks to form/to join a JLA/syndicate. Within **fifteen days** of sanction of any credit facility, such new banks should inform the existing JLA/regular bank/(s) and should not disburse the limit without obtaining 'no objection'. In case such 'no objection' certificate is not received with next **forty five** days, it would be deemed that existing JLA/regular bank/(s) have no objection to the new bank/(s) joining/forming JLA.

Role of Lead Bank/Other Financial Institutions

34. Lead bank will be responsible for preparation of appraisal note, its circulation, arrangements for convening meetings, documentation, etc.

35. **Lead Bank Fees-** 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.

For various services rendered, lead bank may charge a suitable annual fee to be borne by the borrower.

36. In a JLA, in cases of differences of opinion the views of 75 per cent of members by value and 60 per cent of members by number will prevail in all cases of disputes among the members relating to terms and conditions.

37. The set of documents under the Joint Lending Arrangement will be designed and circulated by the Indian Banks' Association (IBA).

Forward Contracts & Derivatives

38. All PSBs would ensure that export Credit to any borrower under JLA will be extended only by those Banks that have extended Working Capital Loans to the borrower. **The lending banks will ensure that RBI's guidelines in respect of pre-shipment credits are meticulously adhered to.**

39. All PSBs would ensure that they would share data relating to sanction of any Forward Contract and Derivatives with all member Banks in the JLA.

40. The Lead Bank of the JLA would obtain on quarterly basis, a certificate from the Chartered Accountants of the concerned corporate stating and certifying all the outstanding Forward and Derivative Contracts across the banking system and that the same has not exceeded the underlying exposure.

Annexure-1

No. 23/3/2012-DRT
Ministry of Finance
Department of Financial Services

Jeevan Deep Building,
Parliament Street, New Delhi,
dated the 23rd April, 2012

To

The CMDs/CEOs of all PSBs and FIs.

Subject: Sale of immovable secured assets through private treaty.

Sir,

I am directed to say that the Security Interest (Enforcement) Rules, 2002 provide for selling of the whole or any part of the immovable secured asset by obtaining quotations/ inviting tenders/by holding public auction or by private treaty. Instances have come to the notice of this Ministry where the provision of private treaty has been misused. It has further been noticed that the immovable secured assets have been sold through private treaty for an amount lower than the assessed value/ reserve price.

2. The matter has been considered in this Ministry and it is felt that alternative of private treaty should generally be resorted to only the other more transparent methods of obtaining quotations / inviting tenders or public auction etc. have not been successful. It would also be desirable to prescribe a minimum number of attempts of sale of immovable secured assets through other more transparent methods depending upon the assessed value / reserve price fixed for the secured assets. It is suggested that at least one such attempt is prescribed for assets with a value up to Rs. One crore and two such attempts for value more than Rs. one crore. However, the alternative of private treaty may be considered without resorting to other methods if all the dues of the bank/ banks in the case are being fully recovered.

3. Further, where the dues of the banks) are not being fully recovered and the amount recoverable through sale in private treaty is less than the assessed value/ reserve price, the approval of one level above the authority competent to enter into the private treaty should invariably be obtained. The banks may, if considered appropriate, constitute a committee of officers including one GM level officer from the Head/Corporate Office of the Bank to consider such issues.

3. You are requested to consider the above suggestion and appropriate instructions/ guidelines within this broad framework may be finalised and issued immediately to all Branches. Please confirm action taken accordingly.

Yours faithfully,

(V K Chopra)
Deputy Secretary to the Government of India
Tele No. 23748738