

Consortium Advances

Rules Governing Consortium Advances

Consortium advances mean advancing loans to a borrower by two or more Banks jointly by forming a Consortium. This will help the Banks to consolidate the appraisal benefit of different Banks and reduce the risks and also help the Banks to keep the exposure within the permissible limit. NABARD/RBI have also insisted on the Banks to make advances under consortium to large size public sector units. Joint appraisal, control and monitoring will facilitate for exchange of valuable information among the Banks. Usually, a Bank with a higher share will lead the consortium. On many occasions, a District Central Bank or a Bank situated in the vicinity of the area of the borrowing unit will be selected as a Lead Bank, as it will facilitate to carry operation of Account, Day to day operations, monitoring and to look after the custody of the pledged stock and to supervise recovery process. Hence, in some cases, consortium leadership has been given to DCC Banks with fewer shares in the consortium. However, there is no restriction on the number of banks for participation in consortium.

Role of Lead Bank in Consortium

- 1) Convening of consortium meetings
- 2) Obtaining of necessary documents, clarification etc. from the borrowing unit.
- 3) Making arrangements for joint appraisal of loan proposal by all member Banks. Preparation of joint appraisal report and sending the same to all member Banks and finalization of decision after discussions.
- 4) Fixation of loan limit.
- 5) Finalization of loan documents to be obtained from borrower
- 6) Convening of Consortium meeting for execution of documents and Registration of Charge on the assets of the loanee.
- 7) Custody of documents, securities etc., on behalf of itself and consortium Banks.
- 8) Verification of documents/securities pledged by itself or jointly with consortium Banks.
- 9) To maintain mutual interest between consortium Banks and term loan lending institutions, making correspondence with National/State level Financial Institutions.
- 10) Obtaining stock statement every month and ensuring maintenance of adequate stock for the loan.
- 11) Obtaining insurance coverage for the entire stock and ensuring renewal of insurance coverage from time to time.
- 12) Passing on recoveries on pro rata basis to the entire consortium Banks.
- 13) Ensuring of all transactions by borrower through Cash Credit A/c maintained with the Lead Bank.
- 14) Ensuring of utilisation of working capital sanctioned limit only for production activities.

Role of Consortium Banks

- 1) Participating in consortium meetings and using their expertise in the general interest of consortium.
- 2) The consortium members should authorize the Lead Bank to take decision in the interest of consortium Banks.
- 3) Consortium Banks should give firm decision regarding their share in the consortium.
- 4) The Consortium Banks are not supposed to change their lending share without obtaining prior approval from the consortium members.
- 5) The consortium Banks should not demand the refund of loans by taking own decision.
- 6) Verification of stock pledged and submitting of verification report to lead Bank and other consortium Banks.
- 7) If any adverse points observed in respect of the loanee, the same should be brought to the notice of Lead Bank and other consortium members.
- 8) Annual or ad hoc share should be taken on the basis of original ratio in consortium.
- 9) A Senior Officer, who is authorized to take spot decision, in the event of necessity, should be deputed to the consortium meeting

Role of Loanee under Consortium

- 1) Furnishing of necessary documents, financial statements to the entire member Banks so as to enable them to make quick processing of loan proposals.
- 2) Assisting Lead Bank in conducting consortium meetings and preparation of proceedings and ensuring the delivery of the same to all consortium Banks.
- 3) Ensuring registration of charge on the assets mortgaged before Registrar of Companies/competent authority.
- 4) Sending of prescribed stock statement, quarterly statements etc. to all the Consortium Banks within stipulated time.
- 5) Assisting the Consortium Banks/Lead Bank in the verification of stocks and securities pledged for availing loan.
- 6) Should deposit the Entire sale proceeds of to Loan Account maintained at Lead Bank and all the transactions should be routed through Account maintained at Lead Bank.
- 7) Should submit the working capital renewal proposal well in advance i.e. 2 months earlier to the date of expiry of the limit.
- 8) If there are any adverse developments in the transactions of the borrower, the same should be informed all the consortium Banks and borrower should abide by the decision taken in the Consortium Banks.

Loan limit appraisal

If the share of Lead Bank is more than 50% in fund-based limit, then the Lead Bank will make the appraisal; otherwise the Bank having next higher share will jointly conduct the appraisal. However, related information/documents should be made available to all members to enable the Bankers to place the subject before their Board. The Lead Bank shall

prepare appraisal report within two months from the date of receipt of Loan application.

Conducting of Consortium Meeting

The consortium meeting should be conducted regularly, once in a quarter.

Annual Meeting

To examine the renewal or enhancement of limit, a meeting of the consortium should be conducted once in a year. A Senior Officer of the consortium banking who is authorized to take decisions on behalf of the institution should attend the meeting. Appraisal note should be submitted to members Banks 10 days earlier to the date of the meeting. Proceedings should be submitted to members within 15 days from date of the meeting. If it is an existing consortium, the representative of Consortium Banks should give his opinion in the meeting itself. If it is a new Consortium, the member Banks should inform their "commitments in principle" within one month and sanction of limit should be informed to the Lead Bank within two months from the date of informing the "Commitments in Principle";.

Other three quarterly meetings

A representative of the Lead Bank and representative of other Banks having the next higher share may attend the other three quarterly meetings. For half yearly meeting, Senior Officer from the controlling office should attend. The respective Branch Managers may attend the remaining two meetings.

These meetings are held mainly to review the working progress of borrower and quarterly statements and to decide the individual Bank share. Even if quarterly statement is not recovered, meeting should be held to review the working progress of the Unit, if needed, participation of other members may be decided.

Participation of New Members

Earlier there was a practice of admitting the new member into the consortium with the consent of the Consortium member Bank having its fund-based share of 75% or more. As per existing norms, if the consortium is unable to decide their commitment within the maximum time fixed for disposal of loan application, then the loanee is at liberty to bring in new Bank/s to the consortium. The new Bank should inform the Consortium within 07 days regarding sanction of loans. However the loans should not be distributed without obtaining NOC. If the NOC is not obtained in the next 10 days, the existing consortium may presume that the new Bank has no objection for joining the consortium.

If the existing member Bank is unable to take its additional share, then such additional share may be re-allotted to other Banks which desires to take such additional share. The New Bank may be included after consulting the loanees. If the New Bank fails to take additional share, it should not be allowed to leave the consortium before completion of 2 years from the date of joining the consortium. It can leave the consortium after completion of 2 years provided other consortium Banks and/or any new Bank is ready to take its share.

Regarding quantum of loan, decision of consortium is binding on Lead Bank and other member Banks. In case of any emergency/urgency, Lead Bank can sanction additional limit up to the existing fixed share. Soon after it should be shared among other members on prorata basis.

Sanction from Member Banks

Lead Bank is responsible for sending post sanction report in respect of borrower to RBI/NABARD as required under CMA.

Uniform Proposal From Member Banks

- a) The terms and conditions decided in the consortium shall be applicable uniformly to all the members.
- b) Lead Bank shall obtain securities/documents.
- c) All member Banks should make efforts to take unanimous decision on all the subjects. This includes sharing of related transactions under various types of loans. In case of dissents, the decision of the Lead Bank or a Bank having higher share is final.