

# Policy on Co-lending

Version 2.0

“Norms for engaging with Banks/Fis/NBFC for co-lending.”

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## Version Control

Document Version	Description of Changes	Date	Prepared / Changed by
1.0	First Version	October 2023	Policy Team
2.0	Second Version	January 2024	Policy Team

## **1. Background**

The Reserve Bank of India (“RBI”) to improve the flow of credit to the unserved and underserved sector of the 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 has issued a circular dated November 05, 2020 bearing reference no. RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 on Co-Lending by Banks and NBFCs to priority sector (“Circular”) superseding its earlier circular dated September 21, 2018 on co-origination by banks and NBFCs for lending to priority sectors. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards. This newly re christened “Co-Lending Model (“CLM), is to bring together banks and NBFCs in a collaborative effort.

This co lending policy (“Policy”) has been drafted in compliance with the Circular. The Policy lays done the structure and process of entering into co-lending arrangement with other lenders (banks and NBFCs) for priority sector lending and non-priority sector lending.

## **2. Co-Lending Policy**

- 2.1.** With a view to further scale-up the operations of the Company and for providing wider reach, the Company shall explore Co-Lending opportunities with various Banks/FIs/NBFC under all possible models of Co-Lending
- 2.2.** The Company will enter into a Master Co-Lending/ Co-origination/ any such agreement with the Co-Lender for defining terms & conditions of the Co-Lending arrangement, participation ratio, commercial arrangements, pre-agreed credit policies, operating procedures/ guidelines, rights and obligations of the Company & the Co-Lender for setting up the co-Lending business including Services and/ or Collection services for the co- Lending business, reporting requirements under various regulations and customer redressal mechanism.
- 2.3.** Terms of the co-Lending arrangement including Master Co-Lending/ Co-origination/ any such agreement required in this matter shall be approved by the ALM Committee of the Board of Directors.
- 2.4.** In terms of the Circular banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The Company can enter into CLM arrangements with all Scheduled Commercial Banks, NBFCs except SFBs, RRBs, UCBs, LABs. The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches.

## **3. Eligible Products/Business Segment**

Existing businesses of the Company including Rooftop Solar, Electric Vehicle 2W & 3W, and MSMEs for green use shall be eligible under the co-lending policy.

Any new product/services/segments must jointly be approved by the CEO, COO, CRO & Head Impact.

## **4. Part A: Co-Lending Arrangements with scheduled commercial banks, except SFBS, RRBS, UCBS, LABS & Foreign Banks (Including WOS) with more than 20 Branches (“Banks”)**

- 4.1. Master Agreement:** A Master Agreement is to be entered between the co-lenders, which shall inter-alia include, terms and conditions of the arrangement, the specific product lines, and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues. The Master Agreement may contain necessary clauses on representations and warranties which the co-lenders shall be liable for in respect of the share of the loans taken into its books by the respective co-lenders.

1. **Risk/Revenue Sharing:** The co-lending Banks will take their share of the individual loans on a back-to-back basis in their books. However, Company shall be required to retain a minimum of twenty per cent (20%) share of the individual loans on their books. Such agreement may provide either for the Bank to mandatorily take their share of the individual loans as originated by the Company in their books or retain the discretion to reject certain loans subject to its due diligence.

Model 1	Model 2
<p>I. If the Agreement entails a prior, irrevocable commitment on the part of the Bank to take into its books its share of the individual loans as originated by the Company, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs” (RBI/2017-18/87-DNBR.PD.CC.No.090/03.10.001/2017-18) dated November 09, 2017 as amended and updated from time to time. In particular, the partner Bank and the Company shall have to put in place suitable mechanisms for ex-ante due diligence by the Bank as the credit sanction process cannot be outsourced under the extant guidelines on Outsourcing.</p> <p>II. The Bank shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.</p>	<p>I. If the Bank exercises its discretion regarding taking into its books the loans originated by the Company per the CLM Master Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over Bank shall ensure compliance with all the requirements in terms of Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (RBI/DOR/2021-22/86/DOR.STR.REC.51/21.04.048/2021-22) dated September 24, 2021 as updated from time to time, with the exception of Minimum Holding Period (“MHP”) which shall not be applicable in such transactions undertaken in terms of this CLM.</p> <p>II. The MHP exemption shall be available only in cases where the prior agreement between the banks and NBFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.</p>

2. **Geographical Scope:** The Company and the Bank can agree upon the geographical scope of the lending in the master agreement depending on the branch location and customer of the Company.

- 3. Servicing of Loans:** The Company shall continue to service the loans on behalf of the Banks as agreed in the master agreement.
- 4.2. Due Diligence:** The Company being the originator of the loans shall adhere to applicable KYC regulatory guidelines and any other regulation as stipulated by RBI from time to time.
- 4.3. Customer Related Issues:**
  1. The Company shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of Company and Banks.
  2. All the details of the arrangement shall be disclosed to the customers upfront, and their explicit consent shall be taken.
  3. The Company should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.
- 4.4. Interest Rate:** The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.
- 4.5. Redressal Of Grievance:** With regard to grievance redressal, suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the Company 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.
- 4.6. Escrow Account:** The Bank and the Company shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/repayments) between the Bank and the Company relating to CLM shall be routed through an escrow account maintained with the escrow bank, in order to avoid intermingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.
- 4.7. Liability of the Company:** The Master Agreement may contain necessary clauses on representations and warranties which the originating Company shall be liable for in respect of the share of the loans taken into its books by the Bank.
- 4.8. Security & Charge Creation:** The Company along with co-lending Bank shall arrange for creation of security and charge as per mutually agreed terms in case of secured loan if any.
- 4.9. Monitoring & Recovery:** There shall be a system and framework for monitoring of all the process, i.e., Loan Origination, Loan Management, Disbursements, Collection and Recovery, as mutually agreed upon with the respective Co-Lending Bank.
- 4.10. Asset Classification, Provisioning & Reporting Requirement:** Each lender shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.
- 4.11. Audit:** The loans under the CLM shall be included in the scope of internal/statutory audit to ensure adherence to our internal guidelines, terms of the agreement and extant regulatory requirements.
- 4.12. 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.
- 4.13. Business Continuity Plan:** The Banks and the Company 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.

## **5. Part B: Co-Lending Arrangement with Other NBFCs/ Non-Priority Sector Lending with Banks**

In the event the Company proposes to enter into co lending arrangement with other NBFCs or in the event the Company proposes to engage in non-priority sector lending, the Company shall continue to comply with all requirements as specified below.

- 5.1. Master Agreement:** A master agreement is to be entered between the co-lenders, which shall inter-alia include, terms and conditions of the arrangement, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues. The Master Agreement may contain necessary clauses on representations and warranties which the co-lenders shall be liable for in respect of the share of the loans taken into its books by the respective co-lenders.
- 5.2. Due Diligence:** The originating co-lender shall adhere to applicable KYC regulatory guidelines and any other regulation as stipulated by RBI from time to time.
- 5.3. Servicing:** The co-lenders shall determine the servicing of the loans as per the terms of the master agreement.
- 5.4. Risks / Revenue Share:** The co-lenders to the master agreement shall set out the risk/revenue share as per terms agreed in the agreement. Both the models as outlined in Part A would be applicable for the arrangement under this section as well.
- 5.5. Escrow Account:** The co-lenders shall maintain each individual borrower's account for their respective exposures. All transactions (disbursements / repayments) between the co-lenders shall be routed through an escrow account maintained with the escrow bank, in order to avoid inter-mingling of funds. The master agreement shall clearly specify the manner of appropriation between the co-lenders.
- 5.6. Other terms:** All other terms as set out in Part A applicable to Banks and as specified in Circular shall continue to apply to co-lenders as set out in this Part B.

## **6. Review of the Policy**

The Policy shall be subject to periodic review by the Board of the Company to ensure compliance with any regulatory or statutory requirement from time to time.