

Avanse Co-lending Policy

(Extracts from Master Credit Policy)

Co-Lending Arrangements (CLA)

- The Company shall enter CLA Master Agreements with eligible regulated entities (RE) for implementing Co-lending arrangements.
- **Originator Requirements: -**
 - i) **Entity Type:** Registered NBFC, HFC, Commercial Banks (excl SFB, LAB, RRB) and AIFs.
 - ii) **Financial Strength:** Minimum AUM of INR 200 Cr and operational history of 3 years.
 - iii) **Market Experience:** Successful completion of at least 2 DA or Securitization deals.
 - iv) **Creditworthiness:** BBB- rating from a SEBI-registered rating agency.
 - v) **Eligible Loan Types:** Education Loans, Education Institutions loans, LAP, HL, and MSME loans, EL Domestic (PLE, Higher education Loan, Test- Preparation, Skilling Loan & Executive Education Loan), Medical equipment, Small Ticket Housing Loans, Healthcare finance and Solar.
 - i) The co-lending regulated entity will take their share of the individual loans on a back-to-back basis in their books. However, the company under CLA shall be required to retain a minimum 10 per cent share of the individual loans in its books.
 - ii) The agreement to be entered between the CLA partners shall include detailed terms and conditions of the arrangement; the criteria for selection of borrowers; specific product lines and areas of operation; fees payable for lending services, if any; provisions related to segregation of responsibilities; time-frame for exchanging critical information; customer interface and customer protection issues and grievance redressal mechanism.
 - iii) The loan agreement signed with the borrower shall make an upfront disclosure regarding the segregation of the roles and responsibilities (such as sourcing, and servicing) of concerned REs, including clear identification of the entity being the single point of interface with the customer. Any subsequent change in customer interface shall only be done after prior intimation to the borrower. The loan-agreement shall also appropriately disclose suitable provisions related to customer protection and grievance redressal mechanism.
 - iv) All required details of CLA shall be disclosed appropriately to the concerned borrower as laid down on 'Key Facts Statement (KFS) for Loans & Advances'
 - v) Originating regulated entity may provide default loss guarantee up to five per cent of loans outstanding in respect of loans under CLA.
 - vi) The Company (Avanse Financial Services Ltd) shall maintain an Off-Balance Sheet exposure Cap of 25% of Assets Under Management (AUM) on ongoing basis considering both Direct Assignment (DA) and the Co-Lending Model (CLA). This cap will be subject to an annual review.
 - vii) The company shall adhere to the extant requirements of reporting to CICs for their share of the loan account

- viii) The interest rate and any other fees / charges on the underlying loans charged to the borrower shall be based on the contractual agreement, subject to the regulatory norms applicable to the REs. Specifically, the final interest rate charged to the borrower shall be the blended interest rate which is calculated as an average rate of interest derived from the interest rates charged by respective REs, as per their internal lending policies and risk profile of the same or similar borrower, weighted by the proportionate funding share of concerned REs under CLA.
- ix) Any change in rates by respective REs under CLA will be made as per their credit policy and extant regulatory norms, and the same shall be reflected in the updated blended rate and communicated to the borrower. Such changes will be made proportional to the loan share of the respective REs whose rates have undergone revision.
- x) Any fees / charges payable by the borrower in addition to the blended interest rate shall be incorporated in computation of annual percentage rate (APR) and disclosed appropriately in the key fact statement (KFS).
- xi) Objective criteria for fees/ charges payable for lending services, depending upon relevant factors such as the nature of service provided, quantum of loan, etc as defined in the schedule of charges of the originating company will be applicable here as well. Such fees/ charges shall not involve, directly or indirectly, any element of credit enhancement/ default loss guarantee unless permitted otherwise.
- xii) a borrower-level asset classification for their respective exposures to a borrower under CLA, implying that if either of the REs classifies its exposure to a borrower under CLA as SMA / NPA on account of default in the CLA exposure, the same classification shall be applicable to the exposure of the other RE to the borrower under CLA. NBFCs shall put in place a robust mechanism for sharing relevant information in this regard on a near-real time basis, and in any case latest by end of the next working day.
- xiii) All transactions (disbursements / repayments) between the REs, as well as with the borrower, shall be routed through an escrow account maintained with a bank (which could also be one of the REs involved in CLA). The agreement shall clearly specify the manner of appropriation between the partner REs.
- xiv) For the purpose of these Directions, CLA refers to an arrangement, formalised through an ex-ante agreement, between a RE which is originating the loans ('originating RE') and another RE which is co-lending ('partner RE'), to jointly fund a portfolio of loans, comprising of either secured or unsecured loans, in a pre-agreed proportion, involving revenue and risk sharing.
- xv) The CLA shall ensure that the respective shares of the REs are reflected in the books of both REs without delay after disbursement by the originating RE to the borrower, in any case not later than 15 calendar days from the date of disbursement.
- xvi) If the originating RE is unable to transfer the share of the exposure to the partner RE under CLA within 15 calendar days for any reason, then the loan/s shall remain on the books of the originating RE and can be transferred to other eligible lenders only under the provisions of Part A of the Master Directions – Reserve Bank of India (Non-Banking Financial Companies - Transfer and Distribution of Credit Risk) Directions, 2025.
- xvii) Each RE shall maintain a borrower's account individually for its respective share.
- xviii) The loans under the CLA shall be included in the scope of internal/ statutory audit in each RE to ensure adherence to their respective internal guidelines, terms of the agreement and applicable regulatory requirements.
- xix) A RE involved under CLA shall comply with the prescribed norms under the Master Direction - Know Your Customer (KYC) Direction, 2016 as amended from time to time.

Partner RE may rely upon the originating RE for “Customer Identification Process” as per the provisions of the said Master Directions on KYC.

- xx) REs shall be guided by the fair practice code and grievance redressal mechanism as applicable to them.
- xxi) Any subsequent transfer of loan exposures originated under CLA to third parties, or any inter-se transfer of such loan exposures between REs, shall be strictly in compliance with the provisions of Part A of the Master Directions – Reserve Bank of India (Non-Banking Financial Companies - Transfer and Distribution of Credit Risk) Directions, 2025. Such transfers to a third party, however, can be done only with the mutual consent of both the originating and partner REs.
- xxii) In addition to the applicable disclosure requirements under extant regulations, REs shall also prominently disclose on their website, a list of all active CLA partners.
- xxiii) REs shall also make appropriate disclosures in their financial statements, under ‘Notes to Accounts’, relating to necessary details of CLAs on an aggregate basis. The details may inter alia include quantum of CLAs, weighted average rate of interest, fees charged / paid, broad sectors in which CLA was made, performance of loans under CLA, details related to default loss guarantee, if any, etc. The disclosure shall be done on quarterly/annual basis, as applicable to the concerned REs.