

# **AVANSE FINANCIAL SERVICES LIMITED**

## **Co-Lending Policy**

## VERSION CONTROL

Version	Date of Adoption	Change reference	Owner	Approving Authority
1	May 5, 2022	Adoption of Policy	Risk & Product team	Board of Directors

**“If at any point a conflict of interpretation/information between this Policy and any Regulations, Rules, Guidelines, Notification, Clarifications, Circulars, Master Circulars/ Directions by RBI arise then interpretation of such Regulations, Rules, Guidelines, Notification, Clarifications, Circulars, Master Directions issued by RBI shall prevail.”**

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## A. INTRODUCTION

The Co-Lending Policy (hereinafter referred to as 'the Policy') has been drafted in line with the notification bearing reference no. RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04. 09.01 /2020-21 dated November 05, 2020 ("CLM") issued by the Reserve Bank of India 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. The scheme as per the aforesaid circular is named as "Co-Lending Model" (CLM) under which, Banks are permitted to co-lend with all RBI registered NBFCs including Housing Finance Companies (HFC) based on a prior agreement.

The scheme is issued in supersession of the erstwhile circular applicable for co-origination of loans by Banks and NBFCs for lending to priority sector bearing reference number FIDD.CO.Plan.BC.08/04.09.01/ 2018- 19 dated September 21, 2018.

Avanse Financial Services Limited ("the Company") proposes to engage with eligible banks for exploring CLM opportunities across its existing and new products / segments which qualify as per the Circular.

The target set of eligible Banks for CLM shall exclude foreign banks (including WOS) with less than 20 branches.

As per the RBI guidelines, banks and NBFCs are required to formulate Board approved policy for entering into the CLM and place the approved policy on their websites. This Policy covers general principles and practices followed by the Company in the co-lending of loans with Commercial Banks.

## B. POLICY TERMS

### A. Applicability

The Policy will be applicable to all its existing and new products offered by the Company under CLM and covers customer sourcing, loan sanctioning, loan servicing and collections activities.

### B. Execution of Master Agreement:

- (1) The Company shall enter into CLM Master Agreements with eligible Banks for implementing Co-lending model. The master agreement may provide the following options to the bank:

**Option 1:** Mandatorily take their share in the individual loans originated by the Company in their books (CLM 1 referred as Option1)

**Option 2:** Bank will have the discretion to reject certain loans subject to its due diligence (CLM 2 referred as Option 2)

- (2) The co-lending banks will take their share of the individual loans on a back-to-back basis in their

books. However, the Company shall retain a minimum of 20 per cent share of the individual loans on its books

- (3) The Master Agreement shall broadly cover terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface, KYC and protection issues.
- (4) The Master Agreement will provide on representations and warranties which the Company shall be liable in respect of the share of the loans taken into the books by the bank.
- (5) The Master Agreement shall be in compliance with the aforementioned RBI Circular dated November 05, 2020 on Co-lending. The Master Agreement will incorporate the manner of appropriation between the co-lenders, commercial elements such as, interest rates, sharing of sourcing and processing fees, crossing rights and revenue sharing, post disbursement servicing arrangement and fees applicable thereto.
- (6) 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 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.
- (7) Where the Bank exercises its discretion regarding taking selected accounts originated by the Company into its books as per the Master Agreement, the arrangement will be akin to a direct assignment transaction. Here the partner Bank shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued vide RBI/2011-12/540 DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 07, 2012 and RBI//2012-13/170 DNBS. PD. No. 301/3.10.01 /2012-13 August 21, 2012 respectively, 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 the CLM.
- (8) The MHP will be exempted only in cases where the prior agreement between the Company and bank contain a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

## C. PRINCIPLES AND PRACTICES

### a. Sharing of Risk and Rewards:

- **Option 1:** There would be a joint contribution of credit at individual loan basis by the Company and the Bank as per the agreed terms and conditions.
- **Option 2:** The Bank will take its share of the loan post disbursement by the Company, basis the due-diligence carried out by the bank.

**b. Interest Rate:** The borrower may be charged an all-inclusive interest rate as may be agreed upon by the Company and the Bank conforming to the respective extant guidelines as applicable to them

- **Option 1:** The Company would have the liberty to price its part of the exposure while the Bank shall price its exposure as per the pre agreed rate. Basis the pricing as may be agreed upon by both the lenders The Company will communicate to the end borrower a single interest rate which is all-inclusive.
- **Option 2:** The Company will price the entire loan as per its risk appetite. The bank subject to due diligence may share the exposure in the loan, the interest/recovery for the said portion at agreed rates will be transferred to the bank.

### c. Know Your Customer (KYC):

The Bank shall 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.

### d. Customer Servicing and related issues:

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 the Company and the Bank.

The Company shall disclose all the details of the arrangement to the customer upfront and an explicit consent in this regards must be taken from the customer.

The extant guidelines relating to customer service and fair practice code and the obligations enjoined upon the Banks and the Company therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

**e. Escrow Account:**

- **Option 1:** The Company and the bank shall open an escrow account which will be maintained with the Banks for disbursement of the loans and a separate escrow account for the repayment of loan from the borrowers.
- **Option 2:** The disbursement will be done by the company and for the loans taken over by the bank post disbursement, the repayments will be received in an escrow account.

The company and the bank shall maintain individual borrowers account and company shall generate a single unified statement of account of the customer, through appropriate information sharing arrangements with the bank.

**f. Monitoring & Recovery:**

Both the company and the bank shall agree on the framework for monitoring and recovery of the loans. The loans under CLM will be included in the scope of internal/statutory audit to ensure adherence to respective internal guidelines, terms of the agreement and extant regulatory requirements.

**g. Security and Charge Creation:**

The Lenders shall arrange for creation of security and charge as per mutually agreeable terms.

**h. Provisioning/Reporting Requirement:**

Both the company and the bank shall adhere to asset classification and provisioning requirements as per the regulatory guidelines respectively applicable and carry out their respective reporting requirements including reporting to Credit Information Companies, under respectively applicable law and regulations for their share of the loan account.

**i. Assignment/ Change in Loan Limits:**

Any assignment of loans by any of the co- Lenders to a third party can be done only with the mutual consent of the other Lender. Further, any change in loan limit of the co-lent facility can be done only with the mutual consent of both the Lenders.

**j. Grievance Redressal:**

There will be suitable arrangement put in place by the Co-lenders to resolve any complaint registered by a borrower with the Company within 30 days of receipt of the Complaint. The borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for the NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

**k. Business Continuity Plan:**

Both the Bank and the Company shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.

**l. Other Policies & Guidelines:**

The Company will ensure that it adheres to the regulations prescribed by the RBI/any other relevant regulatory body and the Company's policies for any loan that has been disbursed through the co-lending model in the same manner as would have been the case if the entire loan were being disbursed solely on the behest of the Company

**m. Outsourcing Services :**

The Company shall adhere to the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services, as amended from time to time.

**3. REVIEW OF POLICY**

- The Co-lending Policy shall be subject to periodic review in accordance with any regulatory or statutory requirement and shall be approved by the Board of the Company. A consolidated report of such reviews may be submitted to the Board at regular intervals.