



## **Policy on Co-Lending of Loans**

*IHFPL Policy on Co-Lending of Loans*



Version Control No.	Author	Date Created / updated	Date Effective	Version Description
V1	Nidhi Sadani (Chief Compliance Officer)	25 July 2023	25 July 2023	Adoption of Co-lending Policy as provided under Reserve Bank of India circular RBI/2020-21/63 dated 05 November 2020, on Co-Lending by Banks and NBFCs for lending to priority sector.

## INTRODUCTION

The Reserve Bank of India has vide its circular RBI/2020-21/63 dated 05 November 2020, on Co-Lending by Banks and NBFCs for lending to priority sector (“RBI Co-Lending Guidelines”) has introduced a Co-Lending Model (CLM) between Banks and registered Non-Banking Financial Companies (including Housing Finance Companies) (HFCs) for providing competitive credit to priority sector. While banks will be able to claim priority sector status in respect of its share of credit under the CLM, it is also envisaged that the benefit of low cost funds from banks and lower cost of operations of HFCs would be passed on to the ultimate beneficiary through the blended rate finally charged to the borrower.

In line with the RBI Co-Lending Guidelines, the Board of Directors of IndoStar Home Finance Private Limited (IHFPL or the Company) has adopted this Policy on Co-Lending (Policy), *inter-alia* incorporating broad terms on which co-lending agreements should be entered into, including manner of charging interest to the borrower.

## SCOPE

This Policy shall be applicable to all arrangements entered into with Banks for the purpose of co-lending including loans to priority sector as defined by the Reserve Bank of India from time to time.

## ESSENTIALS OF CO-LENDING

The Company may enter into co-origination of loans including loans to Priority Sectors, on the following terms and conditions:

- Sharing of risks and rewards: The co-lending bank will take its share of the individual loans on a back-to-back basis in its books. However, the Company shall retain a minimum of 20 per cent share of the individual loans on its books. Partner banks may either mandatorily take its share of the individual loans originated by the Company in its books as per the terms of the agreement, or to retain the discretion to reject certain loans after its due diligence prior to taking in its books, subject to the conditions specified in **Annex I**.
- Co-lending agreement: The Company shall enter into co-lending agreement with Banks with which it proposes to enter into co-lending arrangement which shall *inter-alia* include, 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 and protection issues, as detailed at **Annex I**.
- Authority Matrix: the Management Committee acting in accordance with its terms of reference shall approve co-lending proposals and detailed terms of co-lending agreements to be entered into with

respective banks. The Management Committee may delegate its powers herein to such officials as it may deem fit by setting appropriate credit approving limits.

- The Company shall not enter into co-lending with foreign banks (including wholly-owned subsidiaries) with less than 20 branches.
- Charging of Interest Rate: The borrower may be charged an all-inclusive interest rate as may be agreed upon by both the Company and partner bank conforming to the extant guidelines applicable to both.
- Customer related matters:
  - a. 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 partner bank.
  - b. Details of the co-lending arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
  - c. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and HFCs therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
  - d. The Company shall be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.
  - e. The Company will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with the Company and/or partner bank shall also be shared with the Company / partner bank and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned department of National Housing Bank as specified in the Grievance Redressal Mechanism of the Company.

- Common Account: All transactions (disbursements/ repayments) between the banks and the Company relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Company and the partner bank shall maintain individual borrower's accounts for their respective exposures.
- Monitoring & Recovery: The co-lending agreement shall set out the framework for day to day monitoring and recovery of the loan.
- Security and Charge Creation: The Company and the partner bank will undertake creation of security and charge as per mutually agreeable terms which shall be agreed in the co-lending agreement.
- Provisioning/Reporting Requirement: Both the Company and co-lending partner shall adhere to asset classification and provisioning requirements as applicable to it including reporting to credit information companies, as per the regulatory guidelines under applicable law and regulations, for its portion of lending.
- Assignment/ Change in Loan Limits: Any assignment of loans by any of the lenders can be done only with the consent of the other lender. The Management Committee / persons duly authorized by the Management Committee shall be authorized to approve such proposals for assignment of loans.
- Audit: Loans under this Policy shall be included in the scope of internal/statutory audit within the Company to ensure adherence to internal guidelines, terms of the co-lending agreement and extant regulatory requirements.
- Business Continuity Plan: Both, the Company and the co-lending partner shall formulate a business continuity plan, as part of the co-lending agreement 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.
- In addition to this Policy, the Company shall ensure that all co-origination agreements entered into by the Company with partner banks for lending shall also be in compliance with the other applicable guidelines as issued by RBI / NHB.

## **REVIEW OF POLICY**

This Policy shall be reviewed as and when considered necessary by the Board. All provisions of this Policy would be subject to revision or amendment in accordance with the applicable law as may be issued by relevant statutory, governmental or regulatory authorities, from time to time.

**Scope**

1. The co-lending agreement entered into with partner bank for implementing the CLM may provide either for the bank to mandatorily take its share of the individual loans as originated by the Company in its books or retain the discretion to reject certain loans subject to its due diligence.
2. 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 by the Reserve Bank of India ("RBI"). 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.
3. The bank shall also be required to comply with the extant Master Directions - Know Your Customer (KYC) Direction, 2016, issued by the RBI, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.
4. However, if the bank can exercise its discretion regarding taking into its books the loans originated by the Company as per the 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 Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued by RBI, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of the CLM.
5. The MHP exemption shall be available only in cases where the prior agreement between the bank and the Company contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.
6. The co-lending agreement shall clearly specify the manner of appropriation between the co-lenders.
7. The co-lending agreement may contain necessary clauses on representations and warranties which the Company shall be liable for in respect of the share of the loans taken into its books by the bank.