Policy on

Co-Lending Model (CLM)

LoanTap Credit Products Private Limited

Corporate Office

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Index

1. Preamble

All scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) may engage with NBFC-ND-SIs (**hereinafter referred to as NBFC – LoanTap Credit Products Private Limited**) to co-originate loans for the creation of priority sector assets.

The arrangement should entail joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided master agreement. The bank can claim priority sector status in respect of its share of credit while engaging in the co-origination arrangement. However, the priority sector assets on the bank's books should at all times be without recourse to the NBFC.

Loantap Credit Products Private Limited, in compliance with **"RBI circular no. RBI/2020-21/63" vide "FIDD.CO.Plan.BC.No. 8/04.09.01/2020-21"** dated **November 05, 2020** on **"Co-Lending by Banks and NBFCs to Priority Sector"** (superseding the earlier circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018) is adopting the policy on Co-lending of loans with effect from _____ February 2021.

2. Scope

The primary focus of the revised scheme, rechristened as "Co-Lending Model" (CLM), is 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 **Loantap Credit Products Private Limited** (NBFC).

This policy is applicable on loan extended to borrowers jointly by applicable bank and NBFC under priority sector only as specified by RBI.

The Master Agreement entered into by the bank and **Loantap Credit Products Private Limited** (NBFC) for implementing the CLM may provide either for the bank to mandatorily take their share of the individual loans as originated by the **Loantap Credit Products Private Limited** in their books or retain the discretion to reject certain loans subject to its due diligence.

3 Terminology

Abbreviation	Description
RBI	Reserve Bank of India
NBFC	All Registered Non-Banking Financial Companies (NBFCs) including Housing Finance Companies (HFCs)
CLM	Co-lending Model
KYC	Know Your Customer
AML	Anti – Money Laundering
MHP	Minimum Holding Period
Master Agreement	The Master Agreement entered into with NBFC for implementing the CLM
HFC	Housing Finance Company
DLP	Discretionary Lending Power

4. Features of The Co-Lending Model (CLM)

4.1 Sharing of Risk and Rewards

The Bank may engage with RBI registered NBFCs for Co-Lending. The arrangement should entail joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC, inter alia, covering the essential features as indicated in RBI guidelines on Co-Lending Model.

The Minimum 20% of the credit risk by way of direct exposure shall be on NBFC's books till maturity and the balance 80% will be on bank's books. The NBFC shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-lending bank or any other group company of the partner bank.

The Bank will take its share of the individual loans on a back – to – back basis in its books. However, NBFC shall be required to retain a minimum of 20% share of the individual loans on their books. However, the bank shall have discretion for taking into its books the loan originated by NBFC in compliance of RBI guidelines. Further, NBFC should seek consent of Bank before granting additional loan to the borrower outside co-lending arrangement.

4.2 Classification of Co-Lended loans

Lending to be made only to priority sector defined by RBI which shall include for funding towards Micro Small and Medium Enterprises (MSME), Export Credit, Education, Housing, Social Infrastructure, Renewable Energy, Startups, etc. The Bank can claim priority sector status in respect of its share of credit while engaging in the co-lending arrangement with NBFC in case of priority sector loans.

4.3 Interest Rate

Rate of interest may be under both Fixed and Floating rate regime based upon mutually agreed terms of Bank and NBFC. The ultimate borrower may be charged an all-inclusive interest rate as agreed upon with the NBFC conforming to the extant guidelines applicable to both.

- **Fixed Rate** - Based on the respective interest rates and proportion of risk sharing, a single blended interest rate should be offered to the ultimate borrower in case of fixed rate loans.
- **Floating Rate** - In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, should be offered.

The interest rate charged by the bank for its portion of credit, shall be subject to applicable directions on interest rates on advances. Further, the NBFCs are also required to abide by the pricing of credit and other applicable guidelines for loans covered under “Qualifying Assets” regarding their contribution towards the co-lended loan. It is envisaged that the benefit of low-cost funds from banks and lower cost of operations of NBFCs would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, banks and NBFCs shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc. as and when called for by the Reserve Bank of India.

The NBFCs would have the flexibility to price their part of the exposure, while bank shall price its part of the exposure in a manner found fit as per their respective risk appetite/ assessment of the borrower and the RBI regulations issued from time to time. However, notwithstanding the charging of a single blended / weighted average rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the bank and the NBFC in proportion to their share of credit and interest.

4.4 Know Your Customer (KYC)

The Bank and NBFC shall adhere to the applicable KYC guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) vide RBI Master Directions on KYC-2016 i.e. RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/ 14.01.001/ 2015-16 dated 25.02.2016 and updated from time to time are to be done, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

4.5 Customer Service

The NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of NBFC and Bank.

All details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.

The extant guidelines relating to customer service and Fair Practices Code and the obligations enjoined upon by the bank and NBFC therein shall be applicable mutatis mutandis in respect of loans given under arrangement.

4.6 Grievance Redressal

4.6.1 It shall be the responsibility of the NBFC to explain the end-to-end process & procedure to borrowers regarding difference between products offered through the co-lending model as compared to its own products.

4.6.2 The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower.

4.6.3 Any complaint registered by a borrower with the NBFC shall also be shared with the bank and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

5. Loan Sanction

Bank shall co-lend with NBFCs under a CLM involving sharing of Risks & rewards, ensuring appropriate alignment of respective business objectives as per mutual agreement, minimum share of NBFC being 20%. The Master Agreement entered into with NBFCs for implementing the CLM may provide either to mandatorily take our share of individual loans as originated by the NBFCs in our books or retain the discretion to reject certain loans subject to its due diligence.

There are two options for sanction of loan under CLM -

(a) **Irrevocable Commitment** on part of the bank to take into books, its share of individual loans as originated by NBFCs

- If the Agreement entails a prior, irrevocable commitment on the part of Bank to take into books the share of individual loans as originated by the NBFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in outsourcing of financial Services by Banks issued by RBI 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, there should be suitable mechanisms for ex- ante due diligence as the credit sanction cannot be outsourced under the extant guidelines.

- Compliance of the Master Directions – KYC, 2016 issued by RBI vide RBI/DBR/2015-16/18 Master-Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated 25.02.2016 and updated from time to time is to be done, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

(b) **Discretionary arrangement** on part of the Bank to take portion of the loans originated by NBFCs, this be done in compliance with the RBI guidelines on Transfer of Assets through Direct Assignment.

- If the Bank exercises its discretion regarding taking into its books the loans originated by NBFCs as per Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, 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 vide RBI/2011-12/540 DBOD.No.BP.BC103/21.04.177/2011-12 dated 07.05.2012 and RBI/2012-13/170 DNBS.PD.No.301/3.10.01/2012-13 dated 21.08.2012 respectively, as updated from time to time are to be ensured, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of CLM.
- The Minimum Holding Period exemption shall be available only in cases where the prior agreement with NBFC contains a back-to-back clause and complies with all other conditions stipulated in the guidelines for direct assignment.
- The applicable guidelines for Direct Assignment under CLM, shall be referred from above said policy, as updated from time to time.

6. ESCROW Account

The Bank and NBFC shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the bank and NBFC relating to CLM shall be routed through an Escrow account maintained with the bank, in order to avoid inter-mingling of funds.

The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.

The NBFC shall generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.

7. Credit Norms

In accordance with credit norms of **LoanTap Credit Products Private Limited**, once a client has agreed to commercial terms, evaluation is done based on various parameters like:

- History of borrowing with the co-lenders as well as other lenders if any, various credit checks viz. bureau, internal de-dupe, and fraud/risk checks, OVD or Basic KYC documents like Aadhaar, Passport, PAN, Voter ID etc.
- Assessment of income, business vintage, and stability etc.

The above terms shall be defined on finer lines under the co-lending credit norms to be mutually agreed with the bank. For all the cases sourced by **LoanTap Credit Products Private Limited** shall abide by said norms.

8. Monitoring & Recovery

Both lenders shall create the framework for day-to-day monitoring and recovery of the loan, as mutually agreed upon. The regulatory guidelines, board approved code of conduct and fair practice code should be followed in case of collection of dues and repossession of security by both the lenders.

9. Security and Charge Creation

NBFC along with partnering bank, depending on the terms of master agreement, shall arrange for creation of security and charge as per mutually agreeable terms.

10. Provisioning and Reporting Requirement

Bank & NBFC shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each one of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.

In event of default, provisions shall be provided as per Board approved policy in books of **LoanTap Credit Products Private Limited** for the mentioned loan/s. Any additional provisions shall be made on case-to-case basis.

11. Assignment or Change in Loan Limits

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

12. Inspections and Audit

The loans under the CLM shall be subjected to periodic internal / statutory audit within Bank and NBFC to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements.

13. Business Continuity Plan

Both the bank and the NBFC shall implement a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement.

14. Terms & Conditions for Co-Lending Module

14.1 Co-Lending Product

Detailed products and processes are finalized after strategic discussion between Bank and NBFC, on case-to-case basis, keeping in view its target segment, area of operations, other operational issues, reporting and MIS management, etc.

A Mutually agreed product program will be decided for determining the model of sourcing, pricing, lending, collection and recovery mechanism, servicing fees etc. duly approved by respective competent authorities. Tenure of such product program may be mutually agreed upon and to be incorporated in the Co-Lending Master Agreement by the lenders.

14.2 Documentation:

Any legal document including Master Agreement, Facility Agreement and any document having legal implication under this arrangement would be finalized in consultation with Bank & NBFCs and would be legally vetted before execution.

14.2.1 Master Agreement

- A Master Agreement is entered into with Bank and NBFC 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 & dispute resolution as well as customer interface and protection issues.
- The Master Agreement contains necessary clauses on representations and warranties which the originating NBFC and bank shall be liable for in respect of the share of the loans taken into their respective books.
- All Legal Modalities would be covered under this definitive agreement with the NBFC and Bank is vetted by legal department/ Solicitor/ Advocate/ Legal Consultant of the

Bank’s and NBFC’s approved panel list.

14.2.2 Loan Documents

- Loan agreements shall be drafted and finalized in consultation with Bank and NBFC would be vetted by legal department/ Solicitor/ Advocate/ Legal Consultant of both.
- Bank may entrust the NBFC (through a Power of Attorney) with the responsibility of execution of documents on bank’s behalf. However, indemnity from the NBFC to cover the loss to the Bank in case of failure by NBFC in duly performing its duty to be obtained.
- Further, this arrangement to be captured in the Master Agreement with NBFC.

14.2.3 Co-Branding of Documents

NBFC being the front ending partner and representing both the lenders in front of the customer, it is desirable for all the parties to have a co-branded set of documents to smoothen the process for customer facilitation and awareness.

Common Documents include but not limited to – Application form, Sanction letter, Facility Agreement and/or any other document communicated to the customer having any legal implication.

14.2.4 Standalone Sanction of Co-Lended Loan

If any existing borrower of the Bank is sourced by NBFC, then facility under Co - Lended loan will be assessed & sanctioned on standalone basis i.e., without linking the existing individual / group with the Bank for the purpose of Discretionary Lending Power (DLP), subject to:

- The Sanctioning authority of Co-Lended loan shall ensure that the conduct of the borrower / group account is satisfactory and regular review of facilities is not pending for the concerned borrower.
- The recommendation / views of the concerned branch of the borrower is obtained.

14.2.5 Safe Custody And Storage Of Documents

Since, it is a co-lending arrangement, the documents may be kept under a third-party repository as mutually agreed upon making it convenient for retrieval. This will be subject to the conditions that duly attested/ certified scanned copies and or physical copies of all the executed documents will be provided to bank as and when required by request in writing or through official e-mail of the bank employee/s.

However, the Master Agreement should inter-alia contain the suitable clauses including indemnity clause with right to retrieve the documents jointly with NBFC or individually by Bank, as applicable from the third-party repository under certain conditions arising out of natural or unnatural conditions with appropriate information to NBFC with its concurrence.

Suitable clauses should be incorporated in the agreement to ensure that in case of liquidation of NBFC or if otherwise required by Bank, all the documents should be retrieved as and when required by the bank within a certain time frame.

14.3 Cross Sell

Bank and NBFC shall have rights to cross sell its associate's products to the canvassed customers under the Co-lending Model program, extent of which would be detailed in the proposal which shall be approved and sanctioned by the respective competent authorities of lenders in Master Agreement, duly vetted.

15. Validity and Period of Policy

The Policy shall be continued from the date of approval however, review to be undertaken on yearly basis, if there is any change in the regulatory guidelines or in NBFC or Bank's internal guidelines. Any regulatory guidelines issued by RBI/ Government; post approval shall form the part of this Policy Pending Formal Inclusion at the time of review of the Policy. The existing Policy will be valid and continue as per master agreement till the next review.

16. Policy Administration and Review

The Policy is drafted by Compliance Department and duly approved by the Product, Credit and Finance departments respectively of the **LoanTap Credit Products Private Limited and they** are responsible for its ownership, review, and maintenance. The policy has been approved by the Board of Directors **w.e.f. 10th February 2021** Any queries related to the Policy or request for any modification will be addressed to the respective department.

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