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Background

- i. The Reserve Bank of India has been taking various initiatives to improve and ease the credit flow to various sectors and segments of economic system and further to achieve its vision of the greater financial inclusion , It has made special efforts to ensure that the credit flow and financial services are available till the last mile .
- ii. In this direction, an important game changing step by RBI has been the introduction of Co-lending Model , through which it has paved the way for a model where in the Non-banking finance companies (NBFCs) , Housing Finance Companies(HFCs) and the Banks can come together to collaborate and get into an arrangement to do joint origination and lending in the market. The model envisages a joint lending process in such a manner that that there are defined roles for each party and the risks and rewards are shared by both the co-lenders. This model will not only help to leverage on the liquidity strengths of the banks and other FIs , but also will help make effective use of the deep reach of the NBFCs and HFCs , thereby making funds available to the ultimate beneficiaries at an affordable cost
- iii. In this regard ,The Reserve Bank Of India had issued a communication dated Sep 21, 2018 ; bearing number RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19 (“Co-origination of loans by Banks and NBFCs for lending to priority sector ”) and further a subsequent notification dated November 05, 2020 bearing number RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/ 2020-21 (“Co-Lending by Banks and NBFCs to Priority Sector ”) has been circulated , through which it has outlined the co-lending model and issued the necessary guidance for co-origination and co-lending.

Obejective:

Considering it as a good opportunity to further scale up the retail lending business company will explore co-lending opportunities across all its existing and new products. and Looking at its great potential as well economic viability, the co-lending model and Policy has been adopted as per below outlined framework.

Methods of Co-Lending:-

Company can have following arrangement scenario: -

- i. AHFL and Bank (hereinafter ‘Bank’ referred to as Partner Lender)
- ii. AHFL and NBFC (hereinafter ‘NBFC’ referred to as Partner Lender)

AHFL shall not enter into co-lending arrangement with an NBFC belonging to the

promoter Group.

AHFL shall, on the basis of discussion with partner Bank/FI/SME Lenders, enter into CLM Master Agreements for implementing the model.

- a. the bank to mandatorily take their share of the individual loans as originated by the NBFC in their books (herein after referred to as “Model 1”)

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 SHFL, 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/FI/SME Lenders and SHFL 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.

- b. Retain the discretion to reject certain loans subject to its due diligence (herein after referred to as “Model 2”).

If the bank exercises its discretion regarding taking into its books the loans originated by SHFL as 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 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 this CLM. The MHP exemption shall be available only in cases where the prior agreement between the banks and AHFL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment

Partner Selection in NBFC:

AHFL may enter into Co-Lending arrangement with any of the Banks, Financial Institution or SME Lenders which are eligible to engage in the business of Co-Lending by RBI. Given the significant reliance on the partner, it is critical that the partner selection criteria be robust. The Co-Lending partner shall be assessed basis below parameters:-

- Business Experience
- Management / Promoters
- Financial soundness & Capital Adequacy

- Adequacy of Business policies
- Partner's aspect for Co-Lending

All the existing products of the Company applicable under regulator guidelines, i.e. Housing Loan (HL) and Loan against Property (LAP) shall be eligible for co-Lending of loans.

Master Agreement:

AHFL will enter into collaborations with co-lending partner and execute a Master Co-Lending Agreement with the Partnering Bank /NBFC/ HFC detailing the scope and other terms & conditions.

- i. The Master Agreement between the two partner institutions will include, terms and conditions, the specific product lines and areas of operation, provisions related to segregation of responsibilities, customer interface, KYC and customer protection.
- ii. The Master Agreement will incorporate commercial elements such as, interest rates, sharing of sourcing and processing fees, crossing rights and revenue sharing, risk sharing, post disbursement servicing arrangement and fees applicable thereto
- iii. Master Agreement to also include details for Escrow account, if opened and details of Trustee, if appointed on case to case basis.

Loan Funding Ratio:

- i. The partner institution will take their share of the individual loans on a back-to-back basis in their books.
- ii. Minimum 20% of the loan shall be on AHFL's book till maturity.

Steps in co-lending arrangement:

- i. AHFL will source and identify eligible customers as prospective borrowers as per credit norms mutually agreed with the partner institution. It will undertake credit due diligence including field investigation, personal discussion, verification of know your customer ("KYC") document, legal & technical evaluation of the underlying asset, title search etc. It will collect relevant documents & conduct a thorough due diligence of the borrower(s) to evaluate the credit worthiness. Evaluation of borrowers will be done on past history of repayment, credit checks viz. bureau, internal dedupe, and fraud check, assessment of income, business vintage, stability etc.

- ii. AHFL will recommend proposals to co-lending partner for credit approval under co-lending. It will along with the partner institution put in place suitable mechanisms for ex-ante due diligence by the partner as the credit sanction process cannot be outsourced under the extant guidelines. The partner institution can exercise its discretion regarding approval of loans originated by AHFL. In case of non-approval by partner institution, AHFL will have the right to approve the loan within its book or with any other Co-lending partner.
- iii. Monthly MIS with respect to disbursement, collections, distribution of cash flows will be shared on monthly basis among the parties.

Interest Rate:

- i. AHFL and the co-lending partner will have the flexibility of pricing their part of exposure in accordance with internal pricing strategies; however, the ultimate borrower will be charged an all-inclusive interest rate as agreed upon with the lenders conforming.
- ii. Upon repayment, the interest income will be shared with the co-lending partner in the manner agreed as per Master Agreement.

Operational Aspects:

- i. Transactions (disbursements/ repayments) between the Co-lending partner and AHFL to CLM may be routed through an escrow account maintained with the third party bank, to avoid inter-mingling of funds. The Master Agreement will specify the manner of appropriation between the co-lenders. The co-lenders will establish a framework for monitoring and recovery of the loan.
- ii. The co-lenders will create security and charge as per mutually agreeable terms.
- iii. The framework for monitoring and recovery of the loan, will be as per mutually agreed terms.
- iv. Each Lender will adhere to the asset classification and provisioning requirement, as per the regulatory guidelines applicable including reporting to Credit Information Companies for its share of the loan account.
- v. In event of default, provisions shall be provided in books for its share of loan. Any additional provisions will be made on case-to-case basis.
- vi. The loans under the CLM will be included in the scope of internal/statutory audit to ensure adherence to internal guidelines, terms of the agreement and extant regulatory requirements.

- vii. Any assignment to a third party of a loans extending under Co-lending by AHFL can be done only with the consent of the respective Co-lending partner.
- viii. AHFL has adopted BCP to ensure uninterrupted service to its borrowers, till repayment of the loans even after termination of co-lending arrangement.
- ix. Co-Branding of Documents will be done as per agreed terms prescribed in Master Co-Lending Agreement of both lenders- AHFL & Partner Lender.
- x. Executed documents custody can be kept with AHFL/Partner Lender, as mutually agreed in Master Co- Lending Agreement executed between the parties

Aspects relating to Customer Service:

- i. AHFL will be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which will contain the features of the arrangement and the roles and responsibilities of AHFL and Co-lending partner.
- ii. The details of the arrangement will be disclosed to the customers upfront and their explicit consent will be taken.
- iii. The extant guidelines relating to customer service and fair practices code and the obligations will be applicable in respect of loans given under the arrangement.
- iv. AHFL will generate a single unified statement of the customer, with an appropriate information sharing arrangements with the co-lending partner.

Approval Authority:

ALCO Committee is authorized to take appropriate decisions and actions on co-lending arrangements as per the approved Policy.

Notwithstanding anything above, the policy shall be guided by the extant RBI guidelines and clarifications available thereof from time to time