ART HOUSING FINANCE (INDIA) LTD

DEPARTMENT NAME: TREASURY

STANDARD OPERATING PROCEDURES/ MANUAL/ PROCESS NOTES/ POLICY

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Disclaimer:

Background and Objective

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.

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

The Policy covers general principles and practices followed by AHFL in the co-lending of loans with partner institutions as under: -

Part A- Banks and

Part B- Other NBFCs.

AFHL will explore the possibilities of entering into Co-lending arrangements with the Banks, NBFCs and HFCs for co-origination and joint lending of Housing Loans and LAP.

Part A- Co Lending with Banks

The Master Agreement entered into with the Banks for implementing the Co-Lending Model may provide either for the Bank to:

a) mandatorily take their share of the individual loans as originated by the NBFC in their books ("Option a") or
b) retain the discretion to reject certain loans subject to its due diligence ("Option b")

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 Transfer of Loans 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.

Part B- Co Lending with other NBFC

The arrangement would entail joint contribution of credit at the facility level, by both the Company and the Other NBFC ("Lenders"). It would involve sharing of risks and rewards between the Lenders for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the Lenders. A minimum 20% of the credit risk by way of direct exposure shall be on the Company's books till maturity and the balance will be on the Other NBFC's books. The Company will not fund its contribution towards the loan amount of borrowing from the Other NBFC or any other group company of the Other NBFC and shall give an undertaking to the Other NBFC that effect.

Partner Selection in NBFC

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

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. Participation between the two entities in their capacity as lenders, shall be mutually agreed ratio with minimum 20% of the credit risk by way of direct exposure 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 MISes with respect to. to disbursement, collections, distribution of cash flows with 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 Mater Agreement.

Other 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. AHFL 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 will ensure uninterrupted service to its borrowers, till repayment of the loans even after termination of co-lending arrangement.

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.

Any other regulatory changes with respect to co-lending mechanism will stand updated in the policy from time to time.