

Co-Lending Policy

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Preamble

Reserve Bank of India (RBI) had issued circular No. FIDD.CO.Plan.BC.08/04.09.01/ 2018-19 dated September 21, 2018. on co-origination of loans by banks and NBFCs for lending to priority sector. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards.

Consequently basis the feedback and various comments received, RBI revised the circular vide RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 5, 2020. 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 NBFCs.

In terms of the CLM, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

The banks and NBFCs shall formulate Board approved policies for entering into the CLM and place the approved policies on their websites. Based on their Board approved policies, a Master Agreement may be entered into between the two partner institutions 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.

The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the NBFCs in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books, subject to the conditions.

The banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches.

Note: RBI Circular dated November 5th, 2020, on Co-Lending by Banks and NBFCs to Priority Sector bearing reference no RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 supersedes the circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018.

Piramal Capital and Housing Finance Ltd herein referred to as PCHFL OR Company is a Housing Finance Company (HFC) and it qualifies for the applicability of the stated RBI circular.

The current policy outlines the guidelines on co-lending arrangement with banks in adherence with the stated RBI circular.

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1. Piramal Capital and Housing Finance (PCHFL) Framework

a) General and agreement requirements

PCHFL can enter in co-lending arrangement with below mentioned categories of bank (Partner Banks) for implementing the CLM. **This arrangement can be done only for lending to priority sector.**

- For each such arrangement, master agreement will have to be signed off with the banks which would cover the details as follows:
 - Partner bank to take their share of the individual loans as originated by the PCHFL in their books or retain their discretion to reject certain loans subject to due diligence of loan accounts. Of the total loan, % share of the loan which will be retained by PCHFL must be clearly mentioned. Atleast 20% to be retained by PCHFL in its books.
- If such arrangement 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 PCHFL, the same 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. PCHFL and the partner bank shall put in place suitable mechanisms for *ex-ante* due diligence by the Partner Bank.
- If Bank exercises its discretion regarding taking into its books the loans originated by PCHFL as per the Agreement, the arrangement will be akin to a direct assignment transaction.
- 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 Partner Bank and PCHFL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.
- The taking over bank complies with all the requirement in terms of Guidelines on Transaction Involving Transfer of Assets through Direct Assignment.
- The master agreement entered with the Partner Bank shall include terms and conditions of the arrangement, the criteria for selection of partner institutions the specific product lines and areas of operation, tenor, security requirement (if any) and other credit filters as applicable.
- Compliance with extant guidelines on Know Your Customer (KYC)
- Roles and responsibilities of PCHFL and Partner Bank shall be clearly defined. In no circumstances the credit sanction process can be outsourced.
- Necessary clauses on representations and warranties which the PCHFL shall be liable for in respect of the share of the loans taken into its books by the Partner Bank
- Framework for monitoring and recovery of the loan. This can cover various parameters like ticket size, region wise exposure, delinquency etc. The recovery action at various delinquency stages can also be specified.
- Creation of security and charge as per mutually agreeable terms.
- Asset classification and provisioning requirement, as per the regulatory guidelines applicable to PCHFL including reporting to Credit Information Companies must be specified. ***PCHFL shall report its share of the loan in CIC and follow the provisioning norm as*** under the applicable regulations for its share of the loan account.
- Assignment of a loan by a co-lender to a third party can be done by PCHFL only with the consent of the Partner Bank and can be done by Partner Bank only with consent of PCHFL.
- In the event of termination of co-lending arrangement, Both PCHFL & Partner Bank shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement.

b) Customer perspective

- PCHFL shall enter into loan agreement with the borrower which shall clearly contain the features of the arrangement and the roles and responsibilities of PCHFL and Partner Bank.
- PCHFL shall be the single point interface for customers.
- Ultimate borrower to be charged an all-inclusive interest rate as may be agreed upon by PCHFL and Partner Bank conforming to the extant guidelines applicable to both.
- All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
- Guidelines relating to customer service and fair practices code and the obligations enjoined upon PCHFL and the Partner Bank therein shall be applicable.
- Customer shall be provided single unified statement for the facility taken.
- With regard to grievance redressal, suitable arrangement must be put in place by PCHFL and Partner Bank to resolve any complaint registered by a borrower with the Company within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman or the Customer Education and Protection Cell (CEPC) in RBI.

c) Other operational requirements

- The co-lending Partner Banks and PCHFL shall maintain each individual borrower's account for their respective exposures. All transactions (disbursements/ repayments) between the Banks and PCHFL relating to CLM shall be routed through an escrow account maintained with the Banks. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.
- The loans originated under co-lending arrangement shall be included in the scope of internal/statutory audit within the Company to ensure adherence to their respective internal guidelines terms of the agreement and extant regulatory requirements.
- The Master Agreement will contain necessary clauses on representations and warranties which PCHFL as originating NBFC shall be liable for in respect of the share of the loans taken into its books by the bank.
- Framework for monitoring and recovery of the loan, as mutually agreed upon with the partner bank shall be established.
- PCHFL shall adhere to the asset classification and provisioning requirement, as per the regulatory guidelines including reporting to Credit Information Companies under the applicable regulations for its share of the loan account.
- Co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.
- Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.

d) Additional parameters to covered in the Master Agreement with Partner Bank :

- Appropriation of funds between PCHFL and Partner Bank.
- Necessary clauses on representations and warranties which PCHFL shall be liable for in respect of the share of the loans taken into its books by the Partner Bank.
- Terms of security creation and charge.

e) Categories of Partner Bank:

- Public Sector Banks
- Private Sector Banks -Domestic
- Private Sector Banks – Foreign (with atleast 20 branches)

f) Approving Authority:

- Every arrangement and the respective co-lending terms can be jointly approved by CEO, COO and CBO.
- This policy be *approved by board and shall be displayed on the PCHFL website*

ADDENDUM to Co-Lending Policy with NBFC(s)/HFC(s) referred as Partner Entity

Over last few years, the lending environment has undergone a lot of changes where NBFCs/HFCs are adopting new operating models / approach to retail lending.

New product lines, new geographies and innovative processes have been introduced by them. PCHFL by entering a co-lending arrangement with these Partner Entity will be able to offer innovative products in new geographies and will enable to offer credit to underserved customers.

Co-lending with such eligible Partner Entity shall benefit all parties to the arrangement including the end customer/borrower.

Norms/criteria for entering into a co-lending arrangement with these Partner Entity is detailed in the document below.

PCHFL shall enter in co-lending arrangement with Partner Entity as a business arrangement.

NBFC/HFC's with which co-lending is proposed shall meet the below criteria:

- The NBFCs/HFCs shall be a registered & regulated by with RBI.
- The NBFCs/HFCs shall confirm having in place a Board approved policy for tie ups with other NBFCs for co-lending arrangement.
- Latest audited financials, GNPA and NNPA, External Credit Rating of the NBFC /HFC wherever available shall be considered while seeking approval for co-lending arrangement.
- The NBFCs/HFCs shall have at least 2 years of business experience.
- For a subsidiary of another NBFC/HFC/Bank, business experience shall be considered for the holding company.
- PCHFL shall not enter into Co-Lending arrangement with another NBFC(s) belonging to Piramal group.
- The NBFCs/HFCs shall maintain the minimum regulatory capital of which confirmation shall be taken from potential NBFCs/HFCs prior to entering into an agreement with PCHFL.

For each such arrangement, master agreement will be executed with mutually agreed terms and conditions which would include minimum following details as under:

- PCHFL to take own share of the individual loans as originated by other Partner Entity in books or retain discretion to reject certain loans subject to due diligence of loan accounts. Of the total loan, a minimum of 50% share of the loan which will be retained by PCHFL must be clearly mentioned.
- Any takeover by the other lender shall be in compliance with the Transfer of Loan guidelines.
- Terms and conditions of the arrangement, the specific product lines and areas of operation, tenor, security requirement (if any) and other credit filters as applicable shall be defined in a separate Product Program and shall be pre-approved by PCHFL's Product Governance Council.
- Compliance to Know Your Customer (KYC) requirements as per the regulatory guidelines & PCHFL AML_KYC Policy.
- Roles and responsibilities of PCHFL and Partner Entity shall be clearly defined. In no circumstances the credit sanction process shall be outsourced and final decision will be of PCHFL.
- Necessary clauses on representations and warranties which the PCHFL shall be liable for in respect of the share of the loans taken into its books by the Partner Entity.

- Framework for monitoring and recovery of the loan. This can cover various parameters like ticket size, region wise exposure, delinquency etc. The recovery action at various delinquency stages can also be specified.
- Creation of security and charge as per mutually agreeable terms.
- Asset classification and provisioning requirement, as per the regulatory guidelines applicable to PCHFL including reporting to Credit Information Companies must be specified. ***PCHFL shall report its share of the loan in CIC and follow the provisioning norm as*** under the applicable regulations for its share of the loan account. .
- Assignment of a loan by a co-lender to a third party can be done by PCHFL only with the consent of the Partner Entity and can be done by Partner Entity only with prior - consent of PCHFL.
- In the event of termination of co-lending arrangement, Both the PCHFL and the Partner Entity shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending arrangement/ master agreement.

e) Customer/Borrower perspective

- PCHFL shall enter into loan agreement with the borrower(s) which shall clearly contain the features of the arrangement and the roles and responsibilities of PCHFL and Partner Entity.
 - NBFCs/HFCs can be the single point interface for customers as per mutually agreed terms & conditions of arrangement
 - Ultimate borrower to be charged an all-inclusive interest rate as may be agreed upon by PCHFL and Partner Entity conforming to the extant guidelines applicable to both.
 - All the details of the arrangement shall be disclosed to the borrower(s) /customers upfront, and their explicit consent shall be taken.
 - Guidelines relating to customer service and fair practices code and the obligations enjoined upon PCHFL and the Partner Entity therein shall be applicable.
 - Customer shall be provided single unified statement for the facility taken.
- With regard to grievance redressal, suitable arrangement must be put in place by PCHFL and Partner Entity to resolve any complaint registered by a borrower with the either / or PCHFL and Partner Entity within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman or the Customer Education and Protection Cell (CEPC) in RBI.

f) Other operational requirements

- All transactions (disbursements/ repayments) between PCHFL and the Partner Entity relating to CLM shall be routed through an escrow account maintained with the Bank(s).
- The loans originated under co-lending arrangement shall be included in the scope of internal/statutory audit within PCHFL to ensure adherence to their respective internal guidelines terms of the agreement and extant regulatory requirements.
- PCHFL shall adhere to the asset classification and provisioning requirement, as per the regulatory guidelines including reporting to Credit Information Companies.
- The co-lending Bank(s)/ NBFC(s)/HFC(s) shall maintain each individual borrower's account for their respective exposures.

g) Additional parameters to covered in the Master Agreement with Partner Entity:

- Appropriation of funds between PCHFL and Partner Entity
- Necessary clauses on representations and warranties which PCHFL shall be liable for in respect of the share of the loans taken into its books by the Partner Entity.
- Terms of security creation and charge

h) Approving Authority:

- Every arrangement and the respective co-lending terms can be approved by Product Governance Council