

AADHAR HOUSING FINANCE LIMITED

Co-Lending Policy

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*(Version – RM/Pol/V2.0)*

## **Contents**

1. Background .....	3
2. Eligibility.....	3
3. Modus Operandi.....	3
3.1 Master Agreement.....	3
3.2 Loan Sourcing & Sanctioning .....	4
3.3 Rate of Interest & Fee Sharing .....	4
3.4 Account Management.....	5
4. Policy Review .....	6

## **1. Background**

This document is intended to present the co-lending policy of Aadhar Housing Finance Limited (“AHFL”/“Company”) as per the Reserve Bank of India (“RBI”) circular no. RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 (“circular”) dated November 05, 2020 (in supersession of the earlier circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018).

RBI vide this circular has given operational flexibility to the lending institutions by revising its existing scheme as “Co-Lending Model” (“CLM”) to improve flow of credit to the un-served and underserved sectors of the economy and make funds available to the ultimate beneficiary at an affordable cost giving better reach to the NBFCs. As this circular all Banks and NBFCs (including HFCs) shall frame a Board approved policy for entering into CLM arrangement and place the approved policy on website.

## **2. Eligibility**

The policy is applicable only in case of following segments:

- a. Co-origination of loan with Scheduled Commercial Banks only, excluding foreign banks (including WOS) with less than 20 branches.

Lending to be made to priority sector defined by RBI and non-priority sector which shall include for funding towards micro, small & medium enterprises, export credit, education, housing, social infrastructure, renewable energy, startups etc. Before entering into the Master Agreement with participating Banks, AHFL will discuss to agree on loan products, which are eligible under the respective CLM / Master Agreement.

## **3. Modus Operandi**

### **3.1 Master Agreement**

- a. A Master Agreement shall be entered into between AHFL and the partner bank which shall include terms and conditions of the arrangement, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues
- b. The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by AHFL 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 Loan amount.

- c. As per compliance with RBI Circular on CLM dated November 05, 2020, the Master Agreement will incorporate commercial elements such as interest rate, sharing of sourcing and processing fees, crossing rights and revenue sharing, post disbursement servicing arrangement and fees applicable thereto.
- d. For the purpose of co-lending, AHFL may enter into Master Agreement with any partnering Bank/NBFC as discussed in the Executive Risk Management Committee held on 7<sup>th</sup> September, 2021

### **3.2 Loan Sourcing & Sanctioning**

- a. AHFL will source and identify eligible customers as prospective borrowers in line with existing AHFL's underwriting along with credit norms mutually agreed with the bank.
- b. If the Master Agreement requires 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 NBFC (as mentioned in first part of clause 3.1 (b)), the arrangement must comply with the extant guidelines on 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. The partner bank and NBFC 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 these guidelines.
- c. However, the bank can exercise its discretion regarding taking into its books the loans originated by AHFL (as mentioned in second line of clause 3.1 (b)). The arrangement will be similar to a direct assignment transaction except the criteria of Minimum Holding Period ("MHP") which shall not be applicable in transactions undertaken in terms of CLM. The MHP exemption will be available only in cases where the prior agreement between the banks and AHFL contains a back-to-back clause, in compliance with other conditions as per guidelines for direct assignment.
- d. Participation between the co-lending banks and AHFL 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

### **3.3 Rate of Interest & Fee Sharing**

- a. Borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both lenders
- b. Upon repayment, the interest shall be shared between AHFL and the bank in proportion to their share of credit and interest rate
- c. AHFL may charge a specified percentage, as negotiated with partnering bank, towards its services for sourcing
- d. In cases where AHFL acts as a servicing and collection agent (which will generally be the case), a separate fee for the same will be charged as agreed mutually
- e. Any other charges, as applicable may be shared as mutually agreed with the partner bank

### **3.4 Account Management**

- a. The co-lending bank and AHFL shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFCs 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

### **3.5 Monitoring & Recovery**

- a. There shall be a system for regular monitoring of all the process like loan origination, loan management, disbursements, collection etc. in consultation with respective Co-Lending Bank.
- b. The loans under the CLM shall be included in the scope of internal/statutory audit to ensure adherence to our internal guidelines, terms of the agreement and extant regulatory requirements

### **3.6 Security & Charge Creation**

- a. AHFL along with partnering bank, depending on terms of agreement, shall arrange for creation of security and charge as per mutually agreeable terms.

### **3.7 Provisioning**

- a. AHFL shall adhere to the asset classification and provisioning requirement including reporting to Credit Information Companies for its share of the loan account.
- b. In case of event of default, provisions shall be provided in books for the mentioned loan (AHFL's part) as per internal board approved policy. Any additional provisions shall be made on case-to-case basis

### **3.8 Customer Dealing**

- a. AHFL shall be 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 along with the roles and responsibilities of AHFL and the partnering bank
- b. All the details of the 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 partnering bank and AHFL therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
- d. AHFL should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.
- e. With regard to grievance redressal, suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with AHFL within 30 days

### **3.9 Other Features**

- a. Any assignment of AHLF's share of loan under co-lending arrangement to a third party can be done only with the consent of the partnering bank
- b. AHFL shall ensure uninterrupted service to their borrowers, on-boarded under the current CLM, till repayment of the loans even in the event of termination of co-lending arrangement between the co-lenders

#### **4. Policy Review**

The Policy should be subjected to an annual review by the management and any warranted modifications should be taken up for the approval of the Board. If there are any amendments in the regulations, revision in the policy should be staged for Board's approval in the immediately ensuing Board Meeting, after the amendments are notified by the regulator.