

Co-Lending Policy

1. Introduction:

The Co-Lending Policy (hereinafter referred to as 'the Policy') has been drafted in line with the notification bearing reference no. RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04. 09.01 /2020-21 dated November 05, 2020 ("CLM") issued by the Reserve Bank of India 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 HFCs/NBFCs. The revised scheme was issued in supersession of the erstwhile circular applicable for co-origination of loans by Banks and NBFCs for lending to priority sector bearing reference number FIDD.CO.Plan.BC.08/04.09.01/ 2018- 19 dated September 21, 2018. The Policy covers general principles and practices followed by Easy Home Finance Limited (hereinafter referred to as 'the Company') in the co-lending of loans with partner institutions as under: -

Part A- Banks; and

Part B- Other HFCs/NBFCs.

The Policy will be applicable to all the categories of products and services offered by the Company under the co-lending model and apply to related operations such as customer sourcing, loan processing, loan servicing and collection activities.

2. PART A

Co-Lending Arrangement with Banks

I. Preamble

Reserve Bank of India has issued a circular dated November 05th, 2020 on Co-Lending by Banks and NBFCs to Priority Sector (RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04.09.01/2020-21) ("Circular") superseding its earlier circular dated September 21, 2018 on co-origination by banks and NBFCs for lending to priority sectors. This policy is adopted by the Company under the Circular as Co-Lending Policy ("CLM Policy").

II. Objectives

The Company proposes to engage with eligible banks for exploring CLM opportunities across its existing and new products / segments which qualify as per the Circular.

The target set of eligible Banks for CLM shall exclude foreign banks (including WOS) with less than 20 branches.

III. Engagement Models with Banks under CLM

The Company shall, on the basis of discussion with eligible Banks, enter into CLM Master Agreements for implementing the model by either:

- a. the bank to mandatorily take their share of the individual loans as originated by the Company in their books (herein after referred to as “Model 1”) or
- b. retain the discretion to reject certain loans subject to its due diligence (herein after referred to as “Model 2”).

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 Company, 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/201415/497/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 and the Company 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.
- The bank shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master Direction DBR. AML. BC. No. 81/14.01.001/2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

Model 2

- If the bank exercises its discretion regarding taking into its books the loans originated by the Company 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 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 the Company contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

IV. Products for Co-lending

Lending under the CLM can be undertaken in all existing products of the Company qualifying under the Circular. It can also be undertaken for any new product that is specifically developed for the purpose of CLM.

a. Common Product program / Assignment Parameters

- Under Model 1, the Company and the partner Co-Lending bank will formulate a common product, policy and guideline (PPG) for Co-lending. This PPG needs to be jointly signed off by the respective board approved authorised signatory for each lender.

- Under Model 2, the Company and the partner Co-Lending bank will pre-agree on the Assignment Parameters (AP) to be evaluated.

b. Origination

The Company shall identify and refer the potential customers to the bank only if the customer complies with the underwriting Criteria applicable to the PPG / AP as applicable.

V. Geographical Scope

Co-lending model will be applicable across the Company's branch network.

VI. Co-lending guidelines

The proposed CLM arrangements are for the sector as eligible under the Circular from time to time. The key features of the proposed policy are summarised below:

a. Board Approved Policy

The Company, through this document, proposes the CLM Policy to comply with the Circular and explore partnerships with Banks.

b. Sharing of Risk and rewards

For all loans under CLM arrangements the Company will directly hold exposure as per the extant RBI Circular. Currently the policy requires that originating NBFC/HFC should hold minimum 20% of the credit risk (20 % share of the individual loans on their books) until maturity. This may be increased subject to agreed appropriate terms and the nature of the mutual agreement with Banks.

c. Commercials

- Interest rate- The ultimate 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.
- Fees and Expense sharing for other activities- Appropriation between the Co-lenders may be mutually decided on the basis of mutual agreement with Banks.
- AUM / Servicing Fees / Any other commercial terms- Would be agreed mutually with Banks.

d. Due Diligence (Know Your Customer)

The Company will adhere to applicable KYC/ AML regulatory guidelines, as prescribed by RBI and any other regulation as stipulated by RBI from time to time.

e. Credit Appraisal

A detailed Standard Operating Process (SOP) would be created in discussion with the partner banks following the CLM Master Agreement being entered into, to suitably detail the Credit Appraisal process within the SOP.

f. Loan Sanction

Under the CLM arrangements, the process of sanction letter issuances and the loan agreement execution would be detailed in the SOP as mutually agreed with Partner Banks

g. Borrower Loan Documentation

Necessary disclosures in the Borrower Loan Agreement would be required as mandated in the RBI circular.

h. Audit

The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and the Company to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

i. Customer Service & Grievance Redressal

- the Company shall be the single point of interface for the customers and shall generate a single unified statement of the Borrower Loan under CLM, through appropriate information sharing arrangements with the bank.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Banks and the Company therein shall be applicable in respect of loans given under the arrangement.
- The Company shall be responsible for grievance redressal, suitably within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

j. Escrow Accounts

The Company and the partner Bank shall open escrow accounts with the partner Bank acting as the Escrow Bank and the manner of operations of such account shall be detailed in the SOP.

k. Monitoring and Recovery

The co-lenders shall establish a framework for monitoring and recovery of the loan as mutually agreed upon, which will be part of master agreement.

l. Security and Charge Creation

For CLM Loans the security and charge where applicable will be created as agreed between the co-lenders.

m. Provisioning/Reporting Requirement

The Company will follow the provisioning requirements including declaration of account as NPA, as per the applicable regulatory guidelines. The Company shall also carry out the respective reporting requirements as per applicable law and regulations for its portion of lending. Loans originated by the Company and subsequently approved by Bank under Model 2, would be assigned to Bank under an Assignment and Servicer Agreement. The process for such agreements, inter alia including standard formats and agreed turn-around time shall be mutually agreed with partner Banks as part of the Master agreement/ SOP.

n. Direct Assignment Transaction between the Company and Bank

Loans originated by the Company and subsequently approved by Bank under Model 2, would be assigned to Bank under an Assignment and Servicer Agreement. The process for such agreements, inter alia including standard formats and agreed turn-around time shall be mutually agreed with partner Banks as part of the SOP.

o. Assignment / Change in Loan Limits

Both lenders can enter into a third party loan assignment agreement with the mutual consent of the other party for assigning their share in the CLM Loan by complying with the Circular

p. Loan Limit

Further, any change in CLM loan limit being offered under CLM arrangements will be done only with the mutual consent of both the lenders.

q. Business Continuity Plan

Notwithstanding termination of CLM Master Agreement, both Lenders agree and acknowledge that Borrower servicing shall be rendered till each loan originated under this CLM agreement is completely repaid or settled as detailed in the SOP repaid or settled as detailed in the SOP on the behest of the Company.

3. Part B- Other HFCs/NBFCs.

1. Sharing of Risk and Rewards: The arrangement would entail joint contribution of credit at the facility level, by both the Company and the Other HFC/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 HFC’s/NBFC’s books. The Company will not fund its contribution towards the loan amount of borrowing from the other HFC/NBFC or any other group company of the other HFC/NBFC and shall give an undertaking to the other HFC/NBFC to that effect.

2. Interest Rate: The Company would have the flexibility to price their part of the exposure, while the other HFC/NBFC 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. Based on the respective interest rates and proportion of risk sharing, a single blended interest rate will be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, will be offered. 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 other HFC/NBFC and the Company in proportion to their share of credit and interest. The interest rate charged by the other HFC/NBFC for its portion of credit, shall be subject to applicable directions on interest rates on advances. The benefit of low-cost funds from the other HFC/NBFC and lower cost of operations of the Company would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, other HFC/NBFC/Company 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.

3. Know Your Customer (KYC): The co-lending Lenders shall adhere to applicable KYC/ AML guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) and will also be guided by Para 14 of Master Directions on KYC, issued by DBR.

4. Loan Sanction: The Company shall recommend to the other HFC/NBFC proposals as found relevant for joint lending. Each Lender will independently assess the risks and requirements of the applicant borrowers. The loan agreement would be tripartite in nature, wherein, both the other HFC/NBFC and the Company shall be parties as lenders to the loan agreement with the customer.

5. Common Account: The other HFC/NBFC and the Company shall open an escrow type common account for pooling respective loan contributions for disbursement as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float. Regarding loan balances, the Company/ other HFC/NBFC shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement to the customer, through appropriate sharing of required information with the HFC/NBFC/ Company.

6. Monitoring & Recovery: Both Lenders shall create the framework for day-to-day monitoring and recovery of the loan, as mutually agreed upon.

7. Security and Charge Creation: The Lenders shall arrange for creation of security and charge as per mutually agreeable terms.

8. Provisioning/Reporting Requirement: Each of the Lenders shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each of the Lenders shall carry out their respective reporting requirements including reporting to Credit Information Companies, under respectively applicable law and regulations for their portion of lending. The Company shall adhere to its broader Provisioning/Reporting standards even in the case of a co-lent loan.

9. Assignment/ Change in Loan Limits: Any assignment of loans by any of the Lenders can be done only with the mutual consent of both the Lenders. Further, any change in loan limit of the co-lent facility can be done only with the mutual consent of both the Lenders.

10. Grievance Redressal: It shall be the responsibility of the Company to explain to end borrower regarding the difference between products offered through the co-lending model as compared to its own products. The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with the Company and/or other HFC/NBFC shall also be shared with the other HFC/NBFC/ Company 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 the Company as laid out in the Fair Practices Code adopted by the Company.

11. Business Continuity Plan: Both the other HFC/NBFC and the Company shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement.

12. Other Policies & Guidelines: The Company will ensure that it adheres to the regulations prescribed by the RBI/any other relevant regulatory body and the Company's policies for any loan that has been disbursed through the co-lending model in the same manner as would have been the case if the entire loan were being disbursed solely on the behest of the Company.

4. Review of the Policy

The Co-lending Policy shall be subject to periodic review in accordance with any regulatory or statutory requirement and shall be approved by the Board of the Company. A consolidated report of such reviews may be submitted to the Board at regular intervals. The Company shall abide by this Policy following the spirit of the Policy and in the manner as may be applicable to its business.