PHF LEASING LTD

POLICY ON CO-LENDING WITH BANKS/OTHER NBFCs

Version	Date of Approval / Review
V.1	22-10-2020
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1. <u>INTRODUCTION</u>

The Reserve Bank of India (RBI) issued guidelines on co-origination of loans by Banks and Non-Banking Financial Companies - Non-Deposit taking Systemically Important (NBFC-ND- SIs) to improve the assets under Priority Sector vide circular no. RBI/2018- 19/49 dated 21st September 2018. RBI has issued fresh guidelines on Co-Lending by Banks and NBFCs to Priority Sector vide circular FIDD. CO. Plan. BC.No.8/04.09.01/2020-21 dated 05/11/2020, superseding its earlier circular mentioned above. The object of co-lending arrangement is to entail "joint contribution of credit by both lenders" and involves "sharing of risks and rewards" between NBFC-ND-SIs and Banks. *The same policy should apply for Co-lending with NBFCs and the expression wherever 'Bank' is made shall mutus mutanda apply to NBFCs.*

2. <u>OBJECTIVES</u>

Based on the RBI guidelines, a policy for "Co-Lending with Banks" has been formulated with the following objectives:

a) Sourcing of New Loans
b) Support in Disbursement, Follow-up & Recovery
c) Lower NPA Rates
d) Priority Sector Lending

3. <u>ESSENTIAL FEATURES</u>

Essential features of Co-Lending model (CLM) between Banks and PHF are as under:

a) **Scope**: A Master Agreement is to be entered between PHF and the Bank, which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner NBFC by the Bank, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues.

   i. The Master Agreement entered with the Bank for implementing the CLM may provide either for the bank to mandatorily take their share of the individual loans as originated by PHF in their books or retain the discretion to reject certain loans subject to its due diligence.
   ii. 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 PHF, the arrangement shall comply with the RBI guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks. In particular, PHF and partner Bank 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 abovementioned guidelines on outsourcing.
   iii. If the bank can exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, PHF and partner bank shall ensure compliance with all the requirements in terms of RBI Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities, vide RBI Circular RBI/2011-12/540 DBOD No. BP. BC-103/21.04.177/2011-12 dated May 07, 2012 with the exception of Minimum Holding Period (MHP), which shall not be applicable in such transactions undertaken in terms of this CLM.

iv. The MHP exemption shall be available only in cases where the prior agreement with the banks contains a ***back-to-back basis clause*** and complies with all other conditions stipulated in the guidelines for direct assignment.

v. This shall imply that the loans will be first opened by PHF and then Bank will open loan accounts afterwards. PHF can sanction and disburse the whole amount of the loan and then approach the bank for reimbursement.

b) **Sharing of Risk and Rewards:** Minimum 20% of the credit risk by way of direct exposure shall be on PHF's books till maturity and the balance will be on bank's books. PHF shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-lending bank or any other group company of the partner bank.

c) **Customer related issues:** PHF shall be the 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 and the roles and responsibilities of PHF and the co-lending Bank. All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.

d) **Interest Rate:** PHF shall have the flexibility to price their part of the exposure, while bank may 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. An all-inclusive rate may be charged from the borrower, conforming to the pricing guidelines applicable to PHF and the bank, for their respective exposure. However, notwithstanding the charging of an all-inclusive rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the bank and PHF in proportion to their share of credit and interest.

e) **Know Your Customer (KYC):** PHF shall adhere to applicable KYC/ AML guidelines under RBI Master Direction- Know Your Customer (KYC) Direction, 2016, as updated from time to time, and KYC Policy of PHF as approved/ amended by the Board, from time to time. PHF shall also be responsible for capturing and uploading KYC records with CKYCR, as per the KYC templates prescribed by CERSAI for 'Individuals' and 'Legal Entities' (LEs), as the case may, in the manner mentioned in the Prevention of Money Laundering Rules, 2005 as amended from time to time.

f) Loan Sanction:

- PHF shall recommend to the Bank proposals as found relevant for joint lending. The lenders shall be entitled to independently assess the risks and requirements of the applicant borrowers. The loan agreement would be tripartite in nature, wherein, both, the Bank and PHF shall be parties as lenders to the loan agreement with the customer.
- Only demand loan/ Term loan with fixed repayment shall be considered for sanction under co-lending model.

g) **Common Account:** In order to avoid intermingling of funds, PHF and the Bank shall open an escrow type common account for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float. Regarding loan balances, PHF / Bank 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 Bank/ PHF.

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

i) **Security and Charge Creation:** The lenders shall arrange for creation of security and charge as per mutually agreeable terms.

j) **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 andregulations for their portion of lending.

k) **Assignment/ Change in Loan Limits:** Any assignment of loans by any of the lenderscan be done only with the mutual consent of both the lenders. Further, any change in loan limit of the co-lending facility can be done only with the mutual consentof both the lenders.

l) **Grievance Redressal:** It shall be the responsibility of PHF 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 grievanceredressal to the borrower. However, any complaint registered by a borrower with PHF and/or bank shall also be shared with the bank/ PHF 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 NBFCs.

m) **Business Continuity Plan:** Both the bank and PHF shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement.

n) **Internal Audit:** PHF internal/ statutory audit guidelines will be made applicable to all loans under co- lending model. Partner bank may follow its audit procedure for its portfolio.

o) **Service Fee Charge:** PHF will charge service fee from co-lender for the work performed for their share of lending. The fee shall be mutually decided and incorporated in the agreements.

4. INFORMATION TECHNOLOGY ENABLERS

The following processes will be enabled through IT integration (the list is not exhaustive):

- Rule based application for automation of appraisal and sanction.
- Escrow type common account for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers.
- Generation of a single unified statement to the customer.
- MIS for disbursements, repayment due and recoveries made.
- Creation of fresh products codes as per the approved co-lending policy.
- Calculation of income sharing on monthly basis.

Any procedural requirement for implementation of the policy may be adopted after discussion with the Bank, which complies with the RBI's policy framework in this regard.

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