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CO-LENDING POLICY



Registered Office

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DVP - Finance	Head - Finance	1.0	14.11.2020	Approved by the Board on November 11, 2020
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VP - Finance	CFO	1.4	08.11.2024	Enlarged the scope of Co-Lending with NBFCs in addition to Banks

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I. Introduction

The Reserve Bank of India (RBI) vide circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018, issued guidelines on co-origination of loans by Banks and NBFCs. However, with a view to better leverage the respective comparative advantages of the Banks and NBFCs in a collaborative effort, RBI has, vide its Guideline RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 5, 2020 decided to provide greater operational flexibility to the lending institutions and accordingly, has revised the existing scheme as “Co-Lending Model” (“CLM”), thus 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 and greater reach of the NBFCs.

As per RBI Guidelines dated November 5, 2020, all Banks and NBFCs shall frame Board approved policies for entering into the CLM and place the approved policies on their websites.

Muthoot Fincorp Limited (MFL) intends to engage with select Banks and NBFCs/HFCs (“Co-lenders”) to explore co-lending opportunities across all its existing and new product segments.

II. Policy Terms for co-lending with banks (for priority and non-priority sector loans)

1. In terms of the CLM, banks are permitted to co-lend with Muthoot Fincorp Ltd. (MFL) 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, MFL shall retain a minimum of 20 per cent share of the individual loans on its books.
2. Based on their Board approved policy, 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.
3. 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.

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4. The banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions, as the case may be.
5. The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches.
6. Before entering into the Master Agreement with each participating Bank, MFL and such Bank shall mutually discuss and agree on the loan products which are eligible under the respective CLM / Master Agreement.
7. 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 MFL, 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/2014-15/497/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 MFL shall 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.
8. 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.
9. However, if the bank can exercise its discretion regarding taking into its books the loans originated by MFL 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 Transactions Involving Transfer of 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.

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10. The MHP exemption shall be available only in cases where the prior agreement between the banks and MFL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.
11. MFL 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 MFL and banks.
12. All the details of the arrangement shall be disclosed to the customers upfront, and their explicit consent shall be taken.
13. 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.
14. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and MFL therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
15. MFL shall generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.
16. 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 MFL 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.
17. The co-lending banks and MFL shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and MFL relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.
18. The Master Agreement may contain necessary clauses on representations and warranties which MFL shall be liable for in respect of the share of the loans taken into their books by the bank.

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19. The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
20. The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.
21. Each lender shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.
22. The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and MFL to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
23. Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.
24. Both the Banks and MFL shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.

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III. Policy Terms for Co-lending with other NBFCs/HFCs (Co-lenders)

Over last few years, the lending environment has undergone a lot of changes and NBFCs/HFCs are playing a critical role in meeting the credit requirements of the credit starved customers. MFL is looking to diversify its sourcing avenues by entering into Co-lending arrangement with other NBFCs/HFCs to offer innovative products and solutions to meet the credit requirements of the customers. Co-lending with such eligible NBFCs/HFCs shall benefit all parties to the arrangement including the end customer/borrower. Norms/criteria for entering into a co-lending arrangement with these NBFCs/HFCs is detailed in the document below. MFL shall enter in Co-lending arrangement with NBFCs/HFCs as a business arrangement.

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

- The Co-lenders shall be a registered NBFCs/HFCs and regulated by RBI
- The Co-lenders (NBFCs/HFCs) shall maintain the minimum regulatory capital

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- Latest financials, External Credit Rating of the Co-lenders (NBFC /HFC) wherever available shall be considered while undertaking Co-lending arrangement
- MFL shall not enter into Co-lending arrangement with another NBFC(s)/HFC within the group

For each such arrangement, a master agreement will be executed with mutually agreed terms and conditions which shall inter-alia 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.

MFL shall, on the basis of discussion with eligible Co-lender, enter into co-lending arrangement on the basis of the following models:

- Co-Lending Model 1: Prior, irrevocable commitment to MFL on the part of the Co-lender to mandatorily take its share of the individual loans as may be originated and sanctioned by MFL. The Master agreement to be entered into by the Co-lender and MFL for implementing CLM shall provide for the Co-lender to mandatorily take its share of the individual loans originated by MFL in its books. The Co-lender and MFL shall put in place suitable mechanisms for ex-ante due diligence by the Co-lender as required by the RBI regulations.
- Co-Lending Model 2 (Akin to Direct Assignment): Co-lender can exercise its discretion to take or reject its share of loans originated and sanctioned by MFL. This arrangement will be akin to a direct assignment transaction. Accordingly, Co-lender shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows 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.

MFL shall place the Board approved policies for entering into the CLM on its website.

The Managing Director is authorized to take appropriate decisions and actions in the effective implementation of the Policy.

