POLICY ON CO-LENDING

A. Background

The Reserve Bank of India (RBI) has introduced the Co-origination Model between Banks and Non-Banking Financial Companies - Non-Deposit taking - Systemically Important (NBFC-ND-SIs) for providing competitive credit to priority sector vide RBI/2018-19/49FIDD.CO.Plan.BC.08/04.09.01/2018-19datedSeptember21,2018. This is superseded by Co-lending by Banks and NBFCs vide notificationFIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated 5th November 2020 which provides greater ease in operations, customer related issues and also facilitates better implementation for such collaborations

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. As per the revised Co-Lending Model (CLM), banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement.

Under the revised guidelines, NBFCs are permitted to originate and assign on back to back basis within the prescribed framework and also adhering Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities without complying minimum holding period clause.

Banks shall not be allowed to enter into co-lending arrangement with an NBFC belonging to the promoter Group.

B. Basic Model Framework as stipulated by RBI

Essential features of the Co-lending Model between Banks and NBFC-ND-SIs is -

I. Sharing of Risk and Rewards: Minimum 20% of the credit risk by way of direct exposure shall be on NBFC’s books till maturity and the balance will be on bank’s books. The NBFC 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.

II. Interest Rate: NBFC would have the flexibility to price their part of the exposure, while bank 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. 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 the NBFC in proportion to their share of credit and interest. Ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders

III. 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 may also be guided by Para 14 of Master Directions on KYC, issued by DBR.

IV. Loan Sanction: The NBFC 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. NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower.

V. Common Account: The Bank and the NBFC 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.

All transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds.

Regarding loan balances, the NBFC/ 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/ NBFC.

VI. Monitoring & Recovery: Both lenders shall create the framework for monitoring and recovery of the loan, as mutually agreed upon.

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

VIII. Provisioning/Reporting Requirement: Each of the lenders shall follow its independent provisioning requirements including declaration of account as NPA, or impaired 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.

IX. 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-lending facility can be done only with the mutual consent of both the lenders.

X. Grievance Redressal: It shall be the responsibility of the NBFC 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 NBFC and/or bank shall also be shared with the bank/ NBFC 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.

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

C. Identification of Banks & Agreement/MOU

All banks authorised by RBI for business operations in India are eligible for co-lending. The Agreement/MOU shall be entered with the co-lending Banks for the period/s as mutually agreed between the Bank and Chola i.e. either for specific period or perpetually. However, the same will be reviewed once in a year. The agreement with banks shall normally be on non-exclusive basis. However, on mutual agreement, exclusivity can be agreed for specific product or specific region/geography.

Chola shall consider any engagement only with those banks that would have immaculate reputation and market standing. In the context of the proposed co-lending, Chola shall undertake adequate diligence to authenticate for any negative information or feedback about the bank through press media or any other channels of information. Further, for any negative information or feedback arising subsequent to the agreement, Chola shall consider the overall engagement & relationship based upon the situation.

The proposed tie up for co-lending is strongly expected to benefit our company in terms of business volume, product profitability and market share. Chola shall also look into banks which has negligible presence in the industry space hence it enables us greater flexibility to conduct business as per our current process.

The following documentation shall be executed between the bank and Chola

- Master Co-lending agreement
- Escrow Agreement and
- any other agreement to facilitate the co-lending of loans

The Master Agreement may provide either for the bank to mandatorily take their share of the individual loans as originated by the NBFC in their books or retain the discretion to reject certain loans after their due diligence prior to taking in their books.

The company 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 NBFCs and banks

All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.

The Executive Director of Chola shall be the delegated authority and the authorised signatory for entering into co-lending agreement with the banks. The extent/Period of co-lending arrangement with any of the banks will be agreed between the partner bank and Chola as per co-lending agreement that is drafted in line with the RBI norms.

D. Business Model

I. <u>Sharing of Risk and Rewards</u>:
Under the Co-lending model, minimum 20% / maximum 50% of the credit risk by way of direct exposure shall be on Chola's books till maturity and the balance will be on bank's books. The credit risk ratio shall be decided by both the lenders mutually.

Chola shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower.

Commercials & pricing shall be defined under the definitive agreement and shall include all or more of the following –

- Funding Ratio
- Loan interest charged to the borrower
- Fee Income earning (sourcing, collection, risk sharing etc)
- Fee Income/Yield accounting & realization
- GST
- TDS

The servicing fee would be computed on the average assets generated under the program and shall be shared on mutually agreed timeline. Any upfront processing fee collected from the borrower shall be shared in the proportion as may be mutually agreed upon.

II. Interest Rate:

The rate of interest followed under this arrangement shall be either fixed or floating depending on the nature of the product. Customers shall be offered an all-inclusive rate as mutually agreed between the co-lenders.

The bank shall provide the floor rate to be maintained by Chola on agreed frequency or as and when there is a change in the floor rate. Chola shall not source customers at the rate below the floor rate. This floor rate shall be automated in the lending system hence there shall not be any lending below the prescribed minimum rate of interest.

Participation between the company and the Bank (both in their capacity as lenders) shall be in a ratio as mutually agreed.

Rate to Bank	Bank would onboard the loan for its proportionate share at a rate as agreed with the co-lender in Bank lending system.
Rate to the Chola	Chola would book the loan for its share at a rate as mutually agreed, in its lending system and have the necessary capability to simulate the total amount disbursed to the Borrower for servicing of the loan.

The rate of interest to be charged to the borrower would be on per annum basis on monthly/quarterly/half-yearly depending on the product.

III. Know Your Customer (KYC):

The co-lending partners shall follow the applicable KYC/ AML guidelines, as prescribed by Department of Banking Regulation (DBR)/ Department of Non-Banking Regulation (DNBR) and may also be guided by Para 14 of Master Directions on KYC, issued by DBR.

IV. Loan Sanction:

Origination -
Chola has its own in-house team for business origination which pertains to sourcing and identifying of customers eligible as prospective borrowers for the company. All activities like field investigation, personal discussion, original seen and verification of ''know your customer" document (as per RBI approved KYC norms), collection of all relevant documents & a thorough due diligence of the borrower(s) to evaluate the credit worthiness of the borrower shall be done by the sourcing executives of Chola. All the documents shall be duly verified by the Credit & Operations department of Chola

Credit Appraisal Methodology -
The credit methodology followed in Chola is risk identification and measurement to ensure sanction of profitable loans for the organization with optimum productivity and desirable portfolio behaviour. The credit assessment criteria shall follow a process focusing on –

- Quality portfolio
- Consistency in credit appraisal
- Innovation & improvisation
- Productivity
- Profitability

The primary responsibility of the credit team shall be to analyse risks and to make credit decisions that will result in granting low-risk, profitable loans in which the principal and interest is estimated to be repaid in a timely manner. In this regard credit managers shall analyse the borrower's ability and willingness to repay.

The partner banks will also be performing credit screening as per their co-lending policy after approval from Chola's credit underwriting.

The customer shall be communicated of the loan approval only when both the parties have sanctioned the proposal

Risk management, structure, monitoring, Early Warning System (EWS) -
Risk is adequately measured as well as priced while carrying out underwriting. Chola's Risk management, structure, monitoring, EWS framework will be applicable for all accounts sourced under the co-lending arrangement.

Lending Limit -
Chola's scientific model for lending limit (LTV calculation etc.) determination shall be applicable for all loans sourced through co-lending arrangement.

V. Common Account:

Chola and the bank shall open a common account in the nature of escrow account(s) as mutually agreed between both the parties.

Upon satisfactory completion of the facilities documentation, the parties shall jointly make the necessary disbursement in the disbursement escrow account.

VI. Monitoring & Recovery:

The Bank would appoint Chola for the purpose of servicing, collecting, and receiving payment of the receivables and to provide certain other services in relation thereto on the mutually accepted terms and conditions.

The parties shall enter into a servicing and collections agreement for the above as described above. The bank shall pay fees for the servicing & collection services to Chola as mutually agreed between both the parties.

Hence, Chola would act as the servicing and collection agent and to give effect to the same, the parties shall enter into a definitive co-lending agreement wherein the duties, obligations and process would further be elaborately laid out.

All systems framework, processes and policy pertaining to Collections and recovery will be applicable for loans sourced through co-lending.

Chola's in-house collection team will be engaged in collection and recovery from the customer. The bank's share of dues (principal, interest, charges) as applicable will be passed on to the bank upon realisation of customer payment only.

VII. Security and Charge Creation:

In the event of the Borrower/security provider being a company, the creation of security in favour of Chola shall be registered with the Registrar of Companies by designating Chola as Security Holder. Chola shall hold the security in trust for the Bank/Co-lender in proportionate to their share, as per the terms of Co-lending Agreement

VIII. Provisioning/Reporting Requirement:

Provision on the loan will be as per the rules and regulations of Bank and Chola independently. Chola will continue to follow its current ECL policy and provisioning

CIC reporting shall happen independently by both the lenders for their share of funding.

IX. Assignment/ Change in Loan Limits:

Any assignment of loans by the Bank or the Company will be done only with the mutual consent of both the parties. Any change in loan limit of the co-originated facility will be done only with the mutual consent of both the parties

X. <u>Grievance Redressal, Customer Service & Audits</u>:

Chola shall be responsible for servicing the customer and address all queries and grievances, if any, of the customers. Bank/Chola shall share the grievances received with each other as per the regulation.

The loans under the Co-lending agreement shall be subjected to periodic verification by Bank's & Chola's internal auditors to ensure adherence to the guidelines, terms of the agreement and extant regulatory requirements.

XI. <u>Business Continuity Plan</u>:

Both the bank and the Company shall agree and understand that the business continuity plans of each of the Parties are interdependent and continuity of business will depend on functioning of each of the Parties respective business continuity plans.

Each Party shall agree and acknowledge that the obligations undertaken by it under this arrangement shall continue to be offered under ordinary circumstances. In the event of any difficulty in performing the obligations, each Party shall make reasonable efforts to make alternative arrangements for the performance of its obligations under this arrangement.

Since the entire servicing will be done by Chola, Chola shall follow the approved Business continuity Management process.

E. Empowerment & Authority

The Executive Director of Chola is empowered to take all decisions pertaining to the Co-lending program including identification of banks, selection of products, geography, processes & polices etc.

All agreements & MOUs shall be duly executed under the authority and signature of the Executive Director of Chola.

The board shall be updated on the progress of co-lending tie-ups on a periodical basis.

F. Benefits

The Co-lending arrangement shall enable joint contribution of credit at the facility level, by both lenders. It is envisaged that the benefit of low-cost funds from banks and lower cost of operations of NBFC would be passed on to the ultimate beneficiary.

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

This shall enable Chola to gain from profitable business across all customer segments.

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