

## CO-LENDING POLICY

**ECL Finance Limited**  
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## 1. Preamble

Reserve Bank of India has issued a circular dated November 05<sup>th</sup>, 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 ECL Finance Limited (ECLFL/Company) under the Circular as Co-Lending Policy (“CLM Policy”).

## 2. 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.

## 3. 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 NBFC 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”).

### 3.1 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 ECLFL, 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 ECLFL 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.

### 3.2 Model 2

- If the bank exercises its discretion regarding taking into its books the loans originated by ECLFL 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 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. The MHP exemption shall be available only in cases where the prior agreement between the banks and

ECLFL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

#### **4. Products for Co-lending**

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

##### **4.1 Common Product program / Assignment Parameters**

- Under Model 1, ECLFL 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, ECLFL and the partner Co-Lending bank will pre-agree on the Assignment Parameters (AP) to be evaluated.

##### **4.2 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.

#### **5. Geographical Scope**

We are proposing to explore Co-lending opportunity across the Company's branch network.

#### **6. 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:

##### **6.1 Board Approved Policy**

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

##### **6.2 Sharing of Risk and rewards**

For all loans under CLM arrangements ECLFL will directly hold exposure as per the extant RBI Circular. Currently the policy requires that originating NBFC 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.

##### **6.3 Commercial**

- 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 basis mutual agreement with Banks.
- AUM / Servicing Fees / Any other commercial terms– Would be agreed mutually with Banks.

#### **6.4 Due Diligence (Know Your Customer)**

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

#### **6.5 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.

#### **6.6 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

#### **6.7 Borrower Loan Documentation**

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

#### **6.8 Audit**

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

#### **6.9 Customer Service & Grievance Redressal**

- ECLFL 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.
- ECLFL 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.

#### **6.10 Escrow Accounts**

ECLFL 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.

#### **6.11 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.

#### **6.12 Security and Charge Creation**

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

#### **6.13 Provisioning/Reporting Requirement**

The Company will follow the provisioning requirements including declaration of account as NPA, as per the applicable regulatory guidelines. ECLFL shall also carry out the respective reporting requirements as per applicable law and regulations for its portion of lending.

Loans originated by ECLFL 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.

#### **6.14 Direct Assignment Transaction between ECLFL and Bank**

Loans originated by ECLFL 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.

#### **6.15 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

#### **6.16 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.

#### **6.17 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.