



ECLF Co-Lending Policy

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1. INTRODUCTION

1.1 BACKGROUND

Pursuant to the Reserve Bank of India (“RBI”) circular dated September 21, 2018 on co-origination of loans by Banks and NBFCs for lending to priority sectors, the Board of Directors of the ECLF Finance Ltd (“ECLF”) approved Co-lending policy in its meeting dated January 23, 2019.

In terms of the Board approved policy, ECLF has entered into Co-origination tie-ups with several banks and commenced business for MSME Priority sector lending.

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. Under the new Circular of RBI Co-Origination between Bank and NBFC, the policy is rechristened as Co-Lending Model (“CLM”) and the Circular introduced changes to bring operational flexibility to the lenders.

The aim of this Policy is to align the Co-lending Policy with the Circular and supersedes the earlier Board approved policy.

Revised guidelines were issued in supersession of the erstwhile circular applicable for Co-origination of loans by banks and NBFC’s for lending to priority sector having reference number FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018.

1.2 PURPOSE

ECLF has received enquiries from major banks/NBFC’s to mutually explore Co-lending opportunity this includes expression of interest from some of our existing co-lending partner Banks/NBFC’s. ECLF’s key objective is to promote business growth by leveraging the strength of ECLF and the partner bank/NBFC (“Co-lending partner”). This document is to formulate the CLM Policy for ECLF.

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

1.3 SCOPE

The scope of this policy covers the products and guidelines to engage with eligible banks/NBFC’s for exploring CLM opportunities across its existing and new products / segments.

Foreign Banks (including WOS) with less than 20 branches shall be excluded for partnering with for CLM opportunities.

2. ECLF ENGAGEMENT MODELS WITH BANKS/NBFC’S UNDER CLM

ECLF shall, based on discussion with eligible Banks/NBFC’s, enter into CLM Master Agreements for implementing the model by either

- a. the Co-lending partner to mandatorily take their share of the individual loans as originated by ECLF in their books (herein after referred to as “Model 1”) or

- b. the Co-lending partner to retain the discretion to reject certain loans subject to its due diligence (herein after referred to as “Model 2”).

2.1 WHEREIN UNDER MODEL 1

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 Co-lending partner and ECLF shall have to put in place suitable mechanisms for ex-ante due diligence by the Co-lending partner as the credit sanction process cannot be outsourced under the extant guidelines on Outsourcing and as per ECLF Outsourcing Policy.

The CLM Master agreement shall contain below key elements:

- Activities to be performed
- Ability to access all books, records, and information relevant to outsourced activity
- Continuous monitoring and assessment
- Termination clause and minimum period to execute a termination
- Customer data confidentiality & service provider’s liability in case of breach of security & leakage of confidential customer related information. Contingency plan to ensure business continuity
- Prior approval for appointment of sub-contractors
- Right to conduct audits/inspection and access to documents by internal and external auditors, RBI or persons authorized by RBI or other regulators.
- Preservation of documents

2.2 WHEREIN UNDER MODEL 2

If the Co-lending partner exercises its discretion regarding taking into its books the loans originated by ECLF per the CLM Master Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the bank taking over the loan 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 Co-lending partner and ECLF contains a back-to-back basis clause and complies with all other conditions stipulated in the RBI guidelines for direct assignment.

3. PRODUCTS FOR CO-LENDING

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

3.1 COMMON PRODUCT PROGRAM/ASSIGNMENT PARAMETERS

3.1.1 Under Model 1, ECLF and the Co-lending partner 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 authorized signatory for each lender.

3.1.2 Under Model 2, ECLF and the Co-lending partner will pre-agree on the Assignment Parameters (AP) to be evaluated.

3.2 ORIGINATION

ECLF shall identify and refer the potential customers to the Co-lending partner only if the customer complies with the underwriting Criteria applicable to the PPG / AP as applicable.

4. GEOGRAPHICAL SCOPE

We are proposing to explore Co-lending opportunity across the ECLF Network and partnership with other Banks/NBFCs/HFCs.

5. 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:

5.1 BOARD APPROVED POLICY

- ECLF shall share copies of this policy with Co-lending partner, if required.
- The Board approved CLM policy shall be placed on ECLF's official website to comply with the Circular.

5.2 SHARING OF RISK AND REWARDS

For all loans under CLM arrangements ECLF will directly hold exposure as per the extant RBI policy. ECLF should hold minimum 20% of the credit risk (20 % share of the individual loans on ECLF's books) until maturity. Any change in loan limit shall be subject to agreed appropriate terms and the nature of the mutual agreement with Co-lending partner.

5.3 COMMERCIALS

- Interest rate- The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by ECLF & Co-lending partner ("Co-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 CLM Master agreement with Co-lending partner.
- AUM / Servicing Fees / Any other commercial terms– Would be agreed mutually between Co-lenders.

All the commercial terms & conditions needs to be signed off by the board approved authorized signatory for each Co-lending partner.

5.4 DUE DILIGENCE (KNOW YOUR CUSTOMER)

ECLF will adhere to Master Direction-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 and updated from time to time and any other regulation as stipulated by RBI from time to time.

5.5 STANDARD OPERATING PROCEDURES

The detailed Standard Operating Procedures (SOP) would be created in discussion with Co-lending partner following the CLM Master Agreement entailing below mentioned points:

- Credit Appraisal
- Sharing of Risk & Rewards
- Loan Sanction Process
- Loan Documentation
- Monitoring & Recovery

(Note-This list is only illustrative and not exhaustive)

5.6 CREDIT APPRAISAL

ECLF has an existing underwriting framework, and all the loans will be evaluated based on the existing diligence process The Credit appraisal process shall be suitably adapted to adhere to the mutually agreed SOP with Co-lending partner as may be required from time to time.

Co-lending partner shall be entitled and responsible to independently assess the credit risks of the applicant borrowers being proposed under CLM.

5.7 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 Co-lending partner.

5.8 BORROWER LOAN DOCUMENTATION

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

5.9 AUDIT

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

5.10 CUSTOMER SERVICE & GRIEVANCE REDRESSAL

- ECLF 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 Co-lending partner. All the details of the arrangement shall be disclosed to the customers upfront, and their explicit consent shall be taken.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Co-lending partner and ECLF therein shall be applicable in respect of loans given under the arrangement.
- ECLF shall be responsible for grievance redressal, wherein suitable arrangement must be in place to resolve any complaint registered by a borrower with the ECLF 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.

5.11 ESCROW ACCOUNTS

ECLF & Co-lending partner shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/repayments) between the Co-lending partner and ECLF relating to CLM shall be routed through an escrow account maintained with the Co-lending partner/other banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between ECLF & Co-lending partner. ECLF and the Co-lending partner shall open escrow accounts with the Bank acting as the Escrow Bank.

Under Model 1:

Escrow Disbursal Account shall be used for:

- ECLF & Co-lending partner to pool in funds for Borrower Loan disbursal in their respective sharing ratio and

Escrow Collections Account shall be used for:

- Collection from Borrower repayments to be pooled in and
- Appropriation of Funds between Co-lenders as per agreed terms

Under Model 2:

Escrow Disbursal Account shall be used for:

- ECLF to pool funds for Borrower Loan disbursal and
- Co-lending Partner to remit its share for ECLF as per the agreed ratio

Escrow Collections Account shall be used for:

- ECLF to pool funds for Borrower Loan disbursement and
- Appropriation of Funds between Co-lenders as per agreed terms

5.12 MONITORING & RECOVERY

ECLF already has a loan monitoring and Early Alert Process for all the loan segments and the same will be followed for CLM loans. Addition / Modification to the existing process will be done from time to time to maintain a healthy credit book. The salient features of the exposure monitoring process are as follows:

- The Review & Monitoring will be performed both at the portfolio level and at the account level following the delinquency and the asset classification norms as directed by the regulators.
- We may engage with external agencies for improving the efficacies of our collection process and use publicly available databases to assist in the monitoring of the underlying exposure.
- ECLF would be responsible for conducting the periodic monitoring of the facilities and sharing the information with the Co-lending partner. The format and frequency shall be agreed bi-laterally with the Co-lending partner.
- ECLF would be monitoring the facility and lead collection and recovery efforts for the CLM Loans, including invocation of credit guarantee, Insurance claims. ECLF would also do necessary client engagement for recovery of the loan proceeds. The proceeds recovered by ECLF will be shared with Co-lending partner on pro-rata basis for the risk exposure. The cost of providing the recovery agency services would be agreed in the CLM Master Agreement.

5.13 SECURITY & CHARGE CREATION

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

5.14 PROVISIONING/REPORTING REQUIREMENT

ECLF will follow the asset classification and provisioning requirements, as per applicable RBI guidelines. ECLF shall also carry out the respective reporting requirements including reporting to Credit Information Companies as per applicable law and regulations for its portion of lending.

In case, if Co-lending partner, due to their internal guidelines, wants to create any prudent provisioning, then it shall not impact the other Co-lending partner.

5.15 DIRECT ASSIGNMENT TRANSACTION BETWEEN ECLF & CO-LENDING PARTNER

Loans originated by ECLF and subsequently approved by Co-lending partner under Model 2, would be assigned to Co-lending partner 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 Co-lending partner as part of the SOP.

5.16 ASSIGNMENT/CHANGE IN LOAN LIMITS

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

5.17 BUSINESS CONTINUITY PLAN

Notwithstanding termination of CLM Master Agreement, Co-lenders should ensure that Borrower servicing shall be rendered till each loan originated under this CLM agreement is completely repaid or settled as detailed in the SOP agreed with the Co-lending partner.

5.18 WITHOUT RECOURSE TO THE COMPANY

In case, Co-lending partner intends to claim priority sector status for its share of credit while engaging in CLM, ECLF shall ensure that priority sector assets on the books of Co-lending partner will at all times be without recourse to ECLF.

5.19 REPRESENTATION & WARRANTY CLAUSE

The CLM Master agreement may contain necessary clauses on representations and warranties which ECLF shall be liable for in respect of the share of the loans taken into its books by the Co-lending partner (Model 1).

6. REVIEW & AMENDMENT

Co-lending policy shall be annually reviewed in accordance with any regulatory/statutory requirement and shall be approved by the Board of the Company.