Electronica Finance Limited

Co-Lending Policy

Version Control

Document Version	Description of Changes	Memorandum of change	Prepared / Changed by	Proposed by	Owner Department	Approval Date
1.0	First Version	Introduction of Policy	Risk Department	Chief Risk Officer	Treasury	

1- Preamble

Electronica Finance Private Limited (hereafter called “The Company” or “EFL”) being a NDSI- NBFC, is in the business of Lending. The Loan product includes various types of loans including Secured, Unsecured Loans, term loans etc.

Reserve bank of India (RBI) Reserve Bank of India has issued a circular (RBI/2020-21/63, FIDD. CO. Plan. BC.No.8/04.09.01/2020-21) dated November 05th,2020 on Co-Lending by Banks and NBFCs to Priority Sector. In this circular RBI had allowed banks to co-lend with registered NBFC based on agreement. Co-lending arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards. However, EFL shall be required to retain a minimum of 20 per cent share of the individual loans on its book.

EFL shall be responsible for including but not limited to sourcing of customers/ borrowers, credit assessment (as a co-lender) pricing/ monitoring of loans, collections from the customers and requisite regulatory reporting. EFL shall act as a servicing and collection agent for the loans co-lent by EFL and the bank under co-lending agreement.

2- Objective

Objective of this policy is to define framework for co-lending in EFL. EFL proposes to engage with all eligible banks for exploring co-lending opportunities across its existing and new products / segments which qualify as per the Circular. The target set of eligible Banks for co lending with EFL shall exclude foreign banks with less than 20 branches.

3- Products for Co-lending

Company lending under the co-lending model can be undertaken in all existing products of EFL qualifying as per the RBI circular.

4- Geo-Graphical coverage

Company lending under the co-lending model can be undertaken in all business location of EFL. All the branches are eligible to source business under co-lending arrangement.

5- Co-lending model with Banks

EFL shall enter have the option of entering into an into a co-lending agreements with Bank(s) based on the co-lending models permitted under the RBI Directions, as amended from time to time. Presently, the models under the RBI Co-lending norms include:

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 EFL, 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 EFL 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.

Model 2:

- If the bank exercises its discretion regarding taking into its books the loans originated by EFL 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 minimum holding period (MHP) exemption shall be available only in cases where the prior agreement between the banks and EFL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment

Note: Both model would involve sharing of risks and rewards between the Lenders for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the Lenders. A minimum 20% of the credit risk by way of direct exposure shall be on the Company's books till maturity and the balance will be on the Bank's book.

6- Co-lending Guidelines-

For any co-lending arrangement in EFL following guidelines shall be followed –

- **Commercial Arrangement-**In co-lending business both parties shall abide with certain clauses in the agreement. EFL can't initiate any co-lending related transaction without former legal agreement execution.

- **Interest Rate-** Interest rate is one of the key agenda of co-lending arrangement. The legal agreement may have an interest rate clause with consent of both parties. The company will have the flexibility to price their part of the exposure, while the 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 guidelines issued from time to time. Based on the respective interest rates and proportion of risk sharing, a single blended interest rate will be offered to the borrower.

- **Fee & Expense sharing-** All the fee and expenses shall be shared between the parties as per the mutually agreed clauses mentioned in the agreement.

- **Customer Due- Diligence (KYC compliance)-** EFL shall adhere all applicable regulatory guidelines related to KYC & AML, as prescribed by RBI and other applicable regulators from time to time. KYC record of the customer shall be stored as per the regulatory norms and shall be produce to the regulator and other investigation agencies as and when sought.

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

- **Credit Appraisal-** Both parties will work on agreed credit appraisal practice through Standard Operating Process (SOP). Borrower loan documentation, issuance of sanction later and loan agreement be executed as per the agreement/SOP.

- **Customer Service-** EFL shall be single point of contact for all customer services related issues and grievances The extant guidelines of RBI, relating to customer service and fair practices code shall be applicable in respect of loans given under the arrangement.

- **Transaction/escrow Account Management-** Both parties may open a separate bank account for all transaction related to co-lending arrangement as per the agreement clause. Also, EFL may get into an escrow account agreement with the partner bank and process of handling escrow account shall be documented in the Agreement.

- **Audit-** All loans under co-lending arrangement shall be included in the scope of internal/statutory audit within the co-lending parties to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

- **Portfolio Management & Loan recovery-** Notwithstanding termination of Co-Lending Master Agreement, both Lenders agree and acknowledge that Borrower servicing shall be rendered till each loan originated under co-lending agreement is completely repaid or settled as detailed in the agreement. Both parties shall establish a framework for monitoring and recovery of the loan accounts as mutually agreed upon, which would be part of master agreement. Security and charge creation wherever applicable will be created as agreed between both parties of co-lending.

- **Provisioning 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 and regulations

- **Regulatory Reporting -** EFL will follow the provisioning requirements including declaration of account as NPA, as per the applicable regulatory guidelines. EFL shall also carry out the respective reporting requirements as per applicable law and regulations for its portion of lending. Loans originated by EFL 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

- **Cross sell-** EFL shall have right to cross sell its product offering to the customer under the co-lending program. In case of any particular restriction is expected by the bank, same will be documented in the agreement.

- **Custody of loan document-** Loan agreement, including all document related to the portfolio managed by co-lending parties shall be in custody of either part as per the master agreement.

- **Other Policies & Regulatory Guidelines- EFL** will ensure that it adheres to the regulations prescribed by the RBI/any other relevant regulatory body and the Company's policies for any loan that has been disbursed through the co-lending model in the same manner as would have been the case if the entire loan were being disbursed solely on the behest of the Company.

7- Review of the Policy-

This policy shall be subject to periodic review in accordance with any regulatory or statutory requirement and shall be approved by the Board of the Company. The compliance and the execution/negotiation/finalisation for the co-lending arrangement will be the responsibility of Treasury function. The Treasury function shall provide a periodic update on the Co-lending arrangements to the MD&CEO and ALCO. The Board can review the status of various co-lending arrangements periodically.