

## **SMFG India Home Finance Company Limited**

### **Co-Lending Policy**

## CONTENTS

1. INTRODUCTION .....	3
2. POLICY OBJECTIVE .....	3
3. POLICY SCOPE .....	3
4. DEFINITIONS .....	3
5. PRINCIPLES FOR CO-LENDING POLICY .....	4
6. ELIGIBILITY CRITERIA FOR PARTNER INSTITUTIONS - BANKs .....	4
7. EXECUTION OF MASTER CO-LENDING AGREEMENT (MCLA).....	4
8. KNOW YOUR CUSTOMER (KYC) COMPLIANCE .....	5
9. SHARING OF RISKS AND REWARDS .....	6
10. CREDIT UNDERWRITING .....	6
11. DUE DILIGENCE OF LOANS.....	6
12. INTEREST RATE .....	6
13. ESCROW ACCOUNT .....	6
14. CUSTOMER SUPPORT/CUSTOMER SERVICE-RELATED ASPECTS.....	6
15. OTHER CRITERIA.....	7
16. IT SYSTEMS.....	7
17. APPROVAL & MONITORING FREQUENCY OF CO-LENDING PARTNER .....	7
18. POLICY REVIEW .....	8
19. STORAGE AND MANAGEMENT OF DATA .....	8
20. DELEGATION MATRIX.....	8
21. ROLES & RESPONSIBILITIES.....	8

## 1. INTRODUCTION

The Reserve Bank of India (RBI) issued Circular no. FIDD. CO. Plan. BC.No.8/04.09.01/2020-21 dated November 5,2020 (“**Co-lending Circular**”) laying down the principles of “Co-Lending of Priority Sector Loans” (PSL) by Banks and NBFCs (including HFCs), known as “Co-Lending Model” (“**CLM**”).

The circular allows flexibility to improve flow of credit to the un-served and underserved sectors of the economy by making funds available at an affordable cost, promoting financial inclusion. As required by the aforesaid circular all Banks and NBFCs (including HFCs) shall frame a Board of Directors (“**Board**”) approved policy for entering into CLM arrangement.

To build a loan portfolio in co-lending, SMHFC proposes to engage with various Banks with whom a master co-lending agreement (MCLA) will be executed. The program will run within the boundaries of respective Product Approval Documents (PAD) of Home Loan (HL) and Loan Against Property (LAP).

## 2. POLICY OBJECTIVE

The policy objective is to lay down the co-lending framework to foster strategic partnerships with various Banks while adhering to regulatory guidelines on outsourcing, KYC and customer interface.

## 3. POLICY SCOPE

This policy shall be applicable and treated as the guidelines for strategic partnership to be entered with various Banks for co-lending of loans and shall be read along with relevant guidelines issued by RBI and any other regulators as applicable from time to time.

## 4. DEFINITIONS

Term used	Definition
Co-Lending Model (CLM)	Arrangement between Banks and NBFCs to improve the flow of credit to the unserved and underserved sector of the economy by making funds available at affordable cost
Company/ SMHFC	SMFG India Home Finance Company Limited
KYC	Know Your Customer- as per RBI master direction 2016- RBI/DBR/2015-16/18
Co-Lending Partner	Banks with whom SMHFC has entered into Co-lending arrangement and executed Master Co-Lending Agreement
MCLA	Master Co-Lending Agreement

## 5. PRINCIPLES FOR CO-LENDING POLICY

- Implement the Co-Lending Model (CLM) to ensure lending to unserved and underserved sectors.
- Build strategic partnerships with Banks to leverage on their lower cost of funds which will be capital accretive for SMHFC.
- Enhance credit flow to customers with limited access to formal credit by offering Co-lending solutions.
- Adhere to regulatory guidelines on KYC, Customer Service and outsourcing ensuring transparency and fair practices.
- Maintain an escrow account for routing all the monies with respect to the co-lending transactions to avoid intermingling of funds.
- Setup grievance redressal mechanism to promptly resolve customer complaints within 30 days and to de-escalate issues as required.
- Establish a mutually agreed framework for continuous and ongoing monitoring of loan performance, for scheduled repayment and loan recovery.
- To service the loan till its life cycle ends and accrue loan servicing fees as per mutually agreed terms with the co-lender.

## 6. ELIGIBILITY CRITERIA FOR PARTNER INSTITUTIONS - BANKS

SMHFC whilst opting for Co-Lending Model (CLM) shall engage and /or partner only with those Regulated Entities (Banks) which fulfill the mentioned criteria.

- Banks should hold valid registration certificate issued and regulated by the RBI.
- Banks shall confirm having in place a Board approved policy for tie-up with other NBFCs for Co-lending arrangement.
- The arrangement with the partner Bank should be compliant with 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.
- The registered Bank should maintain at least minimum regulatory capital.
- Reputation/ market standing of the Regulated Entity (RE) (i.e., Banks) shall be assessed.
- Alignment of product offerings and processes with SMHFC's internal policies.

## 7. EXECUTION OF MASTER CO-LENDING AGREEMENT (MCLA)

SMHFC shall enter into a Master Co-Lending Agreement (MCLA) with each co-lending partner (shall also be termed as Banks in this document and shall be used interchangeably). The terms of MCLA can either have an irrevocable commitment on the part of Co-lending partner to take into its books its share of individual loan originated by SMHFC or shall allow the partnering bank a discretion to reject certain loans after their due diligence prior to taking them on their books. The MCLA shall

further, inter alia include terms and conditions of the arrangement, product lines and scope of work. Clear provisions for segregation of responsibilities and customer interface shall be included/ documented.

If the Co-lending partner provides an irrevocable commitment to take its share on their books, the arrangement shall comply with RBI's extant regulations/ guidelines on managing Risks and Code of Conduct in outsourcing of financial services by Banks. SMHFC & partnering bank should have suitable mechanisms in place for due diligence of credit underwriting, since credit sanction process cannot be outsourced under the extant guidelines.

If the co-lending partner can exercise discretion regarding taking of loans in its books, the arrangement will be akin to a direct assignment transaction and the taking over partner shall comply with RBI Master Direction on Transfer of Loan Exposure (TLE) issued vide RBI/DOR/2021-22/86/DOR.STR.REC.51/ 21.04.048/2021-22 dated September 24, 2021, as updated from time to time. SMHFC shall ensure compliance with its TLE Policy. However, Minimum Holding Period (MHP) requirements shall not be applicable to such cases provided the MCLA contains a back-to-back clause in line with Co-Lending Circular.

SMHFC shall adhere to the asset classification and provisioning requirement including reporting to Credit Information Companies (CICs) for its share of the loan account. In case of event of default, provisions shall be provided in books for the mentioned loan ( SMHFC's part) as per internal Board approved policy.

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

SMHFC shall arrange for creation of security and charge on Co-lended loans as per terms agreed mutually.

The MCLA to contain necessary clauses on representations and warranties which SMHFC shall be liable for in respect of the share of the loans taken into its books by the co-lending partners.

## **8. KNOW YOUR CUSTOMER (KYC) COMPLIANCE**

SMHFC shall comply with its KYC Policy, which are on the lines of 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 permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

## **9. SHARING OF RISKS AND REWARDS**

Co-lending partner shall take the share of the individual loans on a back-to-back basis in the books. SMHFC shall be required to retain a minimum share of at least 20% of the individual loans on their books as per the co-lending circular. SMHFC basis the arrangement may take up share higher than 20%.

## **10. CREDIT UNDERWRITING**

SMHFC and the co-lending partner shall jointly agree on a Standard Operating Procedure (SOP) for acquisition and underwriting of customers laying down the minimum criteria of due diligence. Final authority to approve the loan shall rest with SMHFC. These policy norms shall be well within the credit boundaries defined in Product Approval Document of SMHFC for HL and LAP.

## **11. DUE DILIGENCE OF LOANS**

SMHFC shall facilitate a due diligence process for the Banks, if so required by the Banks who intend to acquire the loans being transferred by SMHFC. In this regard, SMHFC shall provide support as may be required by the Banks.

## **12. INTEREST RATE**

Borrower shall be charged an all-inclusive interest rate as may be agreed upon by SMHFC and Co-lending partner conforming to the extant guidelines applicable to both the lenders.

## **13. ESCROW ACCOUNT**

SMHFC and the Co-lending partner shall each maintain an individual borrower's account, for their respective exposures. However, all transactions between SMHFC and the Co-lending partner relating to CLM shall be routed via an escrow account maintained with the bank, to avoid inter-mingling of funds. The Master Agreement to include the manner of appropriation between the SMHFC & partnering bank.

## **14. CUSTOMER SUPPORT/CUSTOMER SERVICE-RELATED ASPECTS**

SMHFC 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 SMHFC and partnering banks.

- 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 the customer service and fair practices code and the obligations enjoined upon SMHFC and Co-lending partners therein shall be applicable mutatis mutandis in respect of loans given under the partnership.
- The Co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
- With regards to grievance redressal, SMHFC shall resolve any complaint registered by a borrower. In case the complaint is not resolved within 30 days, the borrower has the option to escalate the same with the concerned Banking Ombudsman/ Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

## 15. OTHER CRITERIA

- Assignment of the SMHFC share of loan to a third party can be done by SMHFC, only with the consent of the Co-lending partner and can be done by the Co-lending partner (for their share) only with prior consent of SMHFC.
- SMHFC should be able to generate a single unified statement of the customer account, through appropriate information sharing arrangements with the partner Banks.
- The loans under the CLM shall be included in the scope of internal/ statutory audit within the Banks and SMHFC to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
- SMHFC & partnering bank shall implement Business Continuity Plan (BCP) to ensure uninterrupted services to their borrower(s) until repayment of loans under the Co-lending arrangement/agreement in the event of termination of Co-lending arrangement between the Co-lenders.
- SMHFC can cross sell for unsecured loan & secured loan where collateral is not part of co - lending arrangement.

## 16. IT SYSTEMS

SMHFC will maintain a robust IT system wherein contracts which are transferred will be flagged separately.

## 17. APPROVAL & MONITORING FREQUENCY OF CO-LENDING PARTNER

Co-lending exposure will be within the product approval document exposure norms. Co-lending performance & partnerships update shall be presented to ROC as per the frequency of committee meetings. All Co-lending partnerships shall be approved by Borrowing Committee and shall be updated to ROC. Further, SMHFC shall also review the Co-lending partners on annual basis.

## 18. POLICY REVIEW

This policy would be effective from the date of approval by the Board and would be subject to amendments in accordance with Regulations, Circulars, Notifications, etc. as may be issued by regulatory authorities, from time to time. In case of any inconsistency of the provisions of this policy with any amendments, circulars, clarifications etc. issued by relevant authorities, such amendments, circulars, clarification etc. shall prevail upon the provisions of this policy.

This policy shall be reviewed by the Board once in every three years subject to any regulatory/statutory amendment requiring earlier review. Management and the policy owner shall be responsible for identifying the necessity of earlier review and notifying the Board promptly.

Any reporting, intimation, approval required from Reserve Bank of India (RBI)/ National Housing Bank (NHB) or from any other regulator(s) under any rules, regulations, statute, or any other applicable laws shall be done as per the said laws.

An abridged form of this policy may be created and may be uploaded on the website of the Company, if required.

## 19. STORAGE AND MANAGEMENT OF DATA

SMHFC shall ensure efficient storage and management of the data in respect of the transferred exposures. In respect of the transactions wherein SMHFC acts as a servicing agent/servicer, it shall hold all deeds, documents and records in respect of the underlying borrowers and the underlying contracts in accordance with its existing practice and policy and contractual understandings.

SMHFC will on a periodic basis as required, share the collection reports in respect of a transferred pool (or loans), generated from the IT system, with the Banks.

## 20. DELEGATION MATRIX

Co-lending documents can be executed jointly and/or severally by the CEO & MD, CRO, CFO or by person/s as may be delegated by them.

## 21. ROLES & RESPONSIBILITIES

Stakeholder	Roles and Responsibilities
Treasury	<ul style="list-style-type: none"> <li>Identification of Co-lending partner</li> <li>Commercial agreement</li> <li>Annual review of the Co-lending partners for any rating change</li> </ul>
Product/ Business	<ul style="list-style-type: none"> <li>Annual assessment of Co-lending partner (including volumes achieved, scope of engagement etc.)</li> <li>Agreement on Product parameters</li> </ul>



Stakeholder	Roles and Responsibilities
	<ul style="list-style-type: none"> <li>▪ Sourcing and onboarding of the loan</li> <li>▪ Business Continuity Plan to ensure uninterrupted services</li> </ul>
Risk Policy	<ul style="list-style-type: none"> <li>▪ Alignment of policy parameters</li> </ul>
Finance	<ul style="list-style-type: none"> <li>▪ Providing estimated gain/ loss on the deal at the time of approval</li> <li>▪ Monthly estimation of upfront gain</li> <li>▪ Accounting for P&amp;L impact</li> <li>▪ Ensure disclosures as required as per RBI guidelines</li> </ul>
AIM	<ul style="list-style-type: none"> <li>▪ Bureau Reporting in line with policy</li> </ul>
Legal	<ul style="list-style-type: none"> <li>▪ Negotiation and finalization of Co-lending arrangement and documents for execution</li> </ul>
Business/ Central Ops	<ul style="list-style-type: none"> <li>▪ Porting of NACH mandate</li> <li>▪ Monthly banking of NACH</li> </ul>
Treasury Operations	<ul style="list-style-type: none"> <li>▪ Opening of Escrow Account</li> <li>▪ Document execution</li> <li>▪ System tagging</li> <li>▪ Remittance of collected funds pertaining to pool &amp; reconciliation thereof</li> </ul>