

Co-Lending

Approvals

Date	Approving Authority
October 27, 2023	Board of Directors
January 18, 2023	Board of Directors

Version Control

Version	Date	Change History
2.0	October 27, 2023	No Change
1	January 18, 2023	NA

Policy Owner: Treasury Department

Disclaimer

This document contains confidential information about INDIA SHETLER FINANCE CORPORATION LIMITED, its intellectual property, methodologies, plans and internal processes, and therefore is not meant for general circulation. It may be circulated internally, strictly on a need-to-know basis.

All rights reserved. These materials are confidential and proprietary to INDIA SHELTER FINANCE CORPORATION LIMITED. No part of these materials should be reproduced, published in any form by any means, electronic or mechanical including photocopy or any information storage or retrieval system nor should the materials be disclosed to third parties without written authorization of INDIA SHELTER FINANCE CORPORATION LIMITED.

Table of Contents

1. INTRODUCTION, SCOPE AND OBJECTIVE.....	3
1.1 Introduction.....	3
1.2 Scope/ Applicability.....	3
1.3 Objective of the Policy	3
2. CO-LENDING FRAMEWORK.....	3
2.1 Co-Lending Partners	4
2.2 Minimum Retention by the Originator for PSL.....	4
2.3 Assessment of the Co-Lending Partner and Approval.....	4
2.4 Credit Policy and Product parameters.....	4
2.5 Agreement to be entered	4
2.6 Co-lending Model (“CLM”) for the PSL Exposures with the Company as the Originator and a Bank as a Lending Partner.....	5
2.7 Other Types of Co-Lending Arrangements.....	5
2.8 Customer Related Aspects	6
3. SELECTION CRITERIA OF PARTNERS	6
3.1 Selection Criteria of Potential Lending Partners	6
3.2 Selection Criteria of Originator.....	6
4. OPERATIONAL GUIDELINES	7
5. REVIEW OF THE POLICY	7

1. INTRODUCTION, SCOPE AND OBJECTIVE

1.1 Introduction

The Reserve Bank of India (“**RBI**”) had issued a notification dated November 05, 2020, bearing number RBI/2020- 21/63 FIDD.CO.Plan.BC.No.8/04.09.01/ 2020-21 on “Co-Lending by Banks and NBFCs to Priority Sector” (“**Co-Lending Guidelines**”), through which it has defined the co-lending model and issued the guidelines, primarily, for co-origination and colending of the loans which may be classified as the **Priority Sector Loans** (“**PSL**”) by the Scheduled Commercial Banks (“**Banks**”).

The Co-lending Model (“**CLM**”) issued by the RBI has prescribed various requirements for a joint lending arrangement between Non- Banking Finance Companies (“**NBFCs**”) including Housing Finance Companies (“**HFCs**”) and the Banks to facilitate a framework within which such lenders could come together to collaborate and get into an arrangement to carry out joint lending in the market. The RBI, under the CLM arrangement, has provided operational flexibility to the lending institutions to facilitate the improvement in flow of credit to the unserved and underserved sectors of the economy and make funds available to the ultimate beneficiary at an affordable cost.

The CLM will not only help to leverage on the liquidity strengths of the banks and other FIs, but also it would help in utilizing deeper reach and connect of the NBFCs and HFCs with customers from smaller markets and low/ informal income segments, thereby making funds available to the ultimate beneficiaries at an affordable cost.

In compliance with the applicable requirements, India Shelter Housing Finance Limited (“**Company**” or “**ISFCL**”) proposes to adopt this **Policy on Co-lending Model** (“**Policy**”) with the approval of its Board of Directors.

1.2 Scope/ Applicability

This Policy shall be applicable to all types of co-lending arrangements which may be entered by the Company with various types of lenders.

1.3 Objective of the Policy

The objective of this Policy is to put in place a framework for the Company to enter into the CLM/ co-lending arrangements, while ensuring compliance with the regulatory requirements.

2. CO-LENDING FRAMEWORK

ISFCL shall endeavor to enter into Co-Lending Arrangements with the Banks for the PSL exposures. Further, the Company may also enter into similar partnership with the Banks and other NBFCs/ HFCs for co-origination of Housing Loans/ Non-Housing Loans including non- PSL exposures. The key elements of the proposed Co-Lending Framework have been provided in the subsequent paragraphs.

2.1 Co-Lending Partners

Co-lending arrangement shall have two lenders for a loan exposure, i.e. **Originator** and **CoLending Partner (“Lending Partner”)**. The Originator shall source the loan and have some share in the total credit exposure taken on the borrower while the Lending Partner shall take majority share of such credit exposure. Depending on specific arrangement with the counter party, ISFCL may take the role of the Originator or the Lending Partner role in the funding proportion, as per the applicable guidelines.

2.2 Minimum Retention by the Originator for PSL

For the loans to be categorized as PSL exposures, the Company, as an Originator, shall retain a minimum of 20 per cent share of the individual loans on its books.

2.3 Assessment of the Co-Lending Partner and Approval

ISFCL shall evaluate proposed Co-Lending partnerships as per the selection criteria mentioned below in the Paragraph 3 of the Policy. Thereafter, after seeking and receiving approval of the Asset Liability Management Committee (“**ALCO**”), the Company shall enter into a prior agreement with a Co-Lending Partner.

2.4 Credit Policy and Product parameters

ISFCL shall finalize the credit policy along with the product lines to be catered with the potential partners.

2.5 Agreement to be entered

The Master Co-Lending Agreement or a comprehensive agreement shall be entered between the ISFCL and the Co-Lending Partner. Such agreement shall include various terms and conditions of the arrangement including terms relating to the following aspects:

- (i) Overall framework for the partnership.
- (ii) Product lines.
- (iii) Areas of operation.
- (iv) Segregation of responsibilities for various matters such as customer interface, fair practices, customer service, customer grievance redressal etc.
- (v) Necessary clauses on representations and warranties which the Originator shall be liable for in respect of the share of the loans taken into its books by the Lending.
- (vi) Framework for monitoring and recovery of the loan.
- (vii) Creation of Security/ Mortgage and other operational aspects, as required.

2.6 Co-lending Model (“CLM”) for the PSL Exposures with the Company as the Originator and a Bank as a Lending Partner

As per the Co-Lending Guidelines, the CLM could have two sub-models; i.e. CLM1 and CLM2, basis the disbursement stage and the discretionary selection by the Lending Partner. The Master Agreement entered by the Originator with the Lending Partner for implementing the CLM may require the Lending Partner to either mandatorily take its share of the individual loans as originated by the Originator in its books or to reject certain loans as per its own discretion subject to its due diligence. The Master Agreement along with its other agreements signed for the CLM arrangement shall include specific provisions relating to the selected sub-model of the CLM as under:

- a) **CLM1 Model** If the Master Agreement/ other agreements entails CLM1, there would be irrevocable commitment on the part of the Lending Partner to take into its books its share of the individual loans as originated by the Originator. It shall be ensured that the arrangement complies with the ‘Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services’ issued by the RBI, as applicable and updated from time to time. Further, since credit sanction process cannot be outsourced under CLM1, the Lending Partner and Originator shall put in place a suitable mechanism for ex-ante due diligence by the Lending Partner.
- b) **CLM2 Model** Under CLM2, Lending Partner can exercise its discretion regarding taking into its books the loans originated by the Company as per the Agreement and such arrangement is akin to a direct assignment transaction. Accordingly, the taking over Lending Partner shall ensure compliance with all the requirements in terms of the ‘Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021’ (“**RBI TLE Directions**”), 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 CLM. The MHP exemption shall be available only in cases where the prior agreement between the Lending Partner and Originator contains a back-to-back basis clause and complies with all other conditions stipulated in the RBI TLE Directions.

2.7 Other Types of Co-Lending Arrangements

The Company may enter into Co-Lending Arrangement with a Small Finance Bank, NBFC or any other HFC subject to applicable regulatory requirements and as per broad framework prescribed in this Policy.

The Originator and the Co-Lending Partner shall maintain each individual borrower’s account for their respective exposures. The Originator shall open the designated Escrow accounts for the arrangement and ensure to process and route loans under co lending through these specified accounts.

Each lender shall be required to adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them

including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.

Any assignment of a loan by a co-lender to a third party shall be done only with the consent of the other lender.

2.8 Customer Related Aspects

- a) The Originator 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 the Originator and the Lending Partner.
- b) The Originator shall ensure that all the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
- c) 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.
- d) The Company shall ensure compliance with the applicable Fair Practices Code.
- e) The Originator shall generate a single unified statement of the customer, through appropriate information sharing arrangements with the Lending Partner.
- f) With regard to grievance redressal, suitable arrangement shall be put in place in accordance with the applicable regulatory/ supervisory instructions.

3. SELECTION CRITERIA OF PARTNERS

3.1 Selection Criteria of Potential Lending Partners

ISFCL, as an Originator, shall ensure that the Lending Partners selected for the Co-lending business are the Scheduled Commercial Banks registered with the RBI. However, subject to the applicable regulatory requirements from time to time, the Company may also enter into such co-lending arrangement with a Small Finance Bank (“SFB”), NBFC or any other HFC.

In case of any other type of Lending Partners except a Bank, prior approval from Board shall be obtained. The key criteria of selecting a potential Lending Partner would be to have viable business arrangement to make funds available to the ultimate beneficiary at an affordable cost while ensuring robust growth of the Company’s business in low income and affordable loan segments.

3.2 Selection Criteria of Originator

In case ISFCL is acting just as a Lending Partner in the Co-Lending Arrangement, it may opt to enter such arrangement with SFBs, NBFCs or other HFCs. However, the Company shall conduct due diligence on the following parameters:

- (a) Vintage- Only those originators who are having more than 3 years of experience in the similar product lines shall be considered.
- (b) Analysis of the financial statements of the Originator for Profitability, Liquidity, ALM profile and other financial parameters shall be carried out
- (c) The Company shall conduct an assessment of the performance of the Originator's loan portfolio to ascertain the efficiency of its sourcing quality and collection processes. For this purpose, data pertaining to product mix, delinquency trends, vintage curves, credit loss trends and recovery performance of the portfolio shall be evaluated.
- (d) The Company shall obtain feedback as per the credit rating agency reports or other industry players.
- (e) The Company shall conduct an assessment of qualitative factors such as reputation of the promoters, funding profile, management quality, corporate governance and historical performance of the portfolio originated.

4. OPERATIONAL GUIDELINES

Operational modalities of the Co-lending arrangement shall be guided by the Master Agreement, Servicer Agreement, and any other such agreement signed bilaterally between both the parties.

5. REVIEW OF THE POLICY

The Policy shall be amended or modified with approval of the Board. The Policy shall be reviewed by the Board on an annual basis. Consequent upon any amendments in the Co Lending Guidelines or any other relevant regulatory directions or any change in the position of the Company, necessary changes in this Policy shall be incorporated and approved by the Board.

Notwithstanding anything contained in this Policy, in case of any contradiction of the provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy.

---XXX---