

CO-LENDING POLICY

Version 1.0

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Policy on Co-lending:

Background:

The Reserve Bank of India vide its circular dated November 05, 2020 has issued guidelines for co-lending by Banks and NBFCs to the priority sector. The primary objective of the Co-Lending Model (CLM) is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks (principal) and greater reach of NBFCs. In line with CLM guidelines, Fedfina will not enter into Co-Lending arrangement with The Federal Bank Limited (promoter bank). The co-lending banks will be required to take their share of individual loans on back-to-back basis in their books. Fedfina shall be required to retain a minimum of 20 percent share of individual loans on its book.

Both, Fedfina and Banks will be required to formulate and get the policy approved by its Board for entering into Co-lending Model (CLM) basis policy approved by the Board, Fedfina and Banks will be required to enter into Master Agreement. The Master Agreement entered between both the parties shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation along with segregation of responsibilities as well as customer interface and protection issues etc. which would be finalized by Fedfina Management in discussion with the Principal Bank/ Institution.

Sr. No.	Particulars	Norms
1.	Co-lending Product	<p>Fedfina shall enter in co-lending arrangement with Banks for Loan against Property (including MSE-LAP), Home Loans, Unsecured Loans and Gold Loans.</p> <p>Mutually agreed product program and process shall be finalized in consultation with the co-lending partner. The same shall be in-line with the Lending Policy approved by the Board. Also, on-boarding of co-lending partner along with the product policy and process guidelines shall be put up to the Credit and Risk Management Committee (CRMC) for approval. Management shall finalize the terms of engagement in discussion with the respective Principal Banks/ Institutions.</p>
2.	Co-Lending Partner	Fedfina shall enter into co-lending arrangement with all scheduled commercial banks excluding foreign banks (including WOS) with less than 20 branches. Lending under CLM shall be only made to priority sectors as defined by RBI.
3.	Know Your Customer (KYC)	Fedfina at the time of sourcing shall adhere to KYC guidelines and due diligence norms as applicable to Banks from time to time.
4.	Minimum Retention Ratio	Fedfina shall be required to maintain a minimum of 20 percent of share of the individual loans in its books.
5.	Loan Sanction	The Master Agreement entered into by Fedfina and Banks for co-lending may provide:

		<ul style="list-style-type: none"> Irrevocable commitment on the part of the Bank to take into its books its share of the individual loans as originated by Fedfina. In such case, the arrangement shall comply with the extant guidelines on Managing Risks and Code of Conduct on Outsourcing of Financial Services by Banks as updated from time to time. Both Fedfina and Bank should put suitable mechanism for ex-ante due diligence by the Bank as the credit sanction process cannot be outsourced under the extant guidelines. If the Bank is exercising discretion power to take into its books loans originated by Fedfina, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over bank shall ensure compliance with all the requirement in terms of Guidelines on Transaction involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities as issued by RBI from time to time. The norms related to Minimum Holding Period (MHP) shall not be applicable to such transactions. The MHP exemption shall be available only in cases where Master Agreement between Fedfina and Bank contain back-to-back basis clause and complies with all other conditions stipulated in the guidelines for Direct Assignment.
6.	Interest Rate	<p>Both Fixed and Floating Rate loans may be offered to the customer depending on the mutually agreed terms with CLM Bank.</p> <p>Fedfina shall price its part of the exposure in a manner found fit as per its risk appetite and risk assessment of the customer and applicable RBI guidelines from time to time. Accordingly, Bank shall price its part of the exposure. However, a single blended rate shall be offered to the customer as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.</p>
7.	Customer Service	<p>Fedfina shall be single point of interface for the customers and shall enter into loan agreement with the borrower, which shall clearly contain the features of the CLM and the roles and responsibilities of Fedfina and Banks.</p> <p>All the details of the CLM shall be disclosed to the customers upfront and their explicit consent to be taken.</p> <p>The extant guidelines relating to customer service and Fair Practices Code and the obligations enjoined upon the bank and NBFC therein shall be applicable mutatis mutandis in respect of loans given under CLM.</p>
8.	Grievance Redressal	<p>Fedfina shall be responsible to resolve complaint registered by the borrower within 30 days. The borrower shall have the option to escalate the same to Banking Ombudsman/Ombudsman for NBFC or the Customer Education and Protection Cell (CEPC) in RBI.</p>

9.	Escrow Account	Fedfina and Bank shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/repayments) between the banks and Fedfina relating to CLM shall be routed through an escrow account maintained with the bank, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between Fedfina and Bank.
10.	Monitoring and Recovery	Fedfina and Bank shall mutually agree and establish a framework for monitoring and recovery of the loan including initiating legal action through necessary authorizations to optimize efforts.
11.	Security and Charge Creation	Fedfina and Bank shall mutually agree and arrange for creation of security and charge for loan (secured in nature)
12.	Asset Classification and Provisioning	Fedfina and Bank shall adhere to the asset classification and provisioning requirement, as per the respective guidelines applicable to each of them including reporting to Credit Information Companies under the applicable regulations for its share of the loan account.
13.	Inspection and Audit	The loans booked under CLM shall be included in the scope of intermediary/statutory audit to ensure adherence to internal guidelines, terms of agreement and extant regulatory requirements.
14.	Assignment / Change in Loan Limits	Assignment of loan can be done only by mutual consent of both the lenders. Any change in loan limits can also be done only with the mutual consent of both the lenders.
15.	Business Continuity Plan	Both Fedfina and Bank shall implement business continuity plan to ensure uninterrupted service to the borrowers till repayment of loan, in the event of termination of co-lending arrangement between the co-lenders
16.	Master Agreement	<p>Fedfina shall enter into Master Agreement with CLM partners which inter-alia shall include terms and conditions of arrangement, the criteria for selection of partner institutions, specific product lines and areas of operations along with provisions related to segregation of responsibilities and dispute resolutions as well customer interface and protection issues.</p> <p>The Master Agreement shall contain necessary clauses on representation and warranties which the Originating NBFC shall be liable for in respect of the share of the loans taken into its books by the bank.</p>
17.	Custody of documents	The documents executed with the customer shall be kept in the safe custody in the respective branch of Fedfina. Alternatively, since the loans are given under co-lending arrangement documents may be kept with a third party repository as mutually agreed between both the partners.
18.	Authority and Delegation	Managing Director and CEO / CFO is authorized to negotiate terms and conditions, execute required documents including Master Agreement / Deed of Assignment / Service Agreement, Security Trustee and finalize other requirement with CLM Bank.