



MUTHOOT MICROFIN LIMITED
(MML)

CO LENDING POLICY

SUMMARY OF POLICY

Policy name	Co-Lending Policy
Regulations	RBI Circular on Co-Lending by Banks and NBFCs to Priority Sector dated November 05, 2020 and any amendments thereafter
Review Cycle	Annually and in the event of any regulatory changes
Approver	Board of Directors

BACKGROUND

RBI had issued guidelines on Co-origination of loans by Bank and NBFCs for lending to priority sector vide notification RBI/2018-19/49 FIDD.CO.Plan.BC.08/ 04.09.01/ 2018-19 dated 21st September 2018. This is superseded by Co-lending by Banks and NBFCs vide notification FIDD.CO.Plan.BC.No.8/04.09.01/2020-21dated 5th November 2020. The aforementioned circular introduced Co-lending model between banks and NBFCs for providing credit to priority sector wherein RBI has advised banks/NBFCs to formulate a Board approved policy for entering into Co-Lending arrangement for creation of priority sector assets.

In accordance with the guidelines, the primary focus of the Co-Lending Model ("CLM"), is to improve the flow of credit to the unserved and underserved sector of the economy.

Such arrangement shall entail joint contribution of credit at the facility level by both lenders. It shall also involve sharing of risks and rewards between the parties for ensuring appropriate alignment of respective business objectives, as per the mutually decided arrangement prescribed in the Master Agreement entered into by the parties.

Such arrangement shall entail joint contribution of credit at the facility level by both lenders. It shall also involve sharing of risks and rewards between the Bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided arrangement between the Bank and the NBFC.

LIMIT FOR COLENDING ARRANGEMENT

The Company shall engage in the business of co-lending in accordance with the limits prescribed by the Board from time to time. The Board will approve each proposed transaction limit and any enhancement in the said limit.

CO LENDING ARRANGEMENT

In terms of Co-lending guidelines, bank have two options under the co-lending mechanism as under:

- a) the bank to mandatorily take their share of the individual loans as originated by the NBFC in their books ("Option A") or
- b) retain the discretion to reject certain loans subject to its due diligence ("Option B")

If the Bank can exercise its discretion regarding taking into its books the loans originated by the Company as per the 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 Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated September 24, 2021 and amendments thereafter, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of the Co Lending Model. The MHP exemption shall be available only in cases where the prior agreement between the Company and banks contain a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

PRINCIPLES AND PRACTICES

I. **Sharing of Risk and Rewards**: Minimum 20% of the credit risk by way of direct exposure shall be on Company's books till maturity and the balance will be on bank's books. The Company shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-lending bank or any other group company of the partner bank.

II. **Interest Rate**: The Company would have the flexibility to price their part of the exposure, while 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 regulations issued from time to time. However, notwithstanding the charging of an all-inclusive rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the bank and the Company in proportion to their share of credit and interest. Ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders

Other Commercials - Fees and Expense sharing for other activities- Appropriation between the Co-lenders may be mutually decided basis mutual agreement between co-lenders

III. **Know Your Customer (KYC):** The bank and the Company shall also comply with 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 already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

IV. **Loan Sanction:** The Company shall recommend to the Bank proposals as found relevant for joint lending. The lenders shall be entitled to independently assess the risks and requirements of the applicant borrowers. The Company shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower.

V. **Escrow Account:** The Bank and the Company shall open an escrow type common account for pooling respective loan contributions for disbursement as well as to appropriate loan repayments from borrowers, without holding the funds for usage of float. In the event any repayments are received directly by the Company, the same shall be deposited in the Escrow account.

VI. **Monitoring & Recovery:** Both lenders shall create the framework for monitoring and recovery of the loan, as mutually agreed upon.

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

VIII. **Provisioning/Reporting Requirement:** Each of the lenders shall follow its independent provisioning requirements including declaration of account as NPA, or impaired 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 for their portion of lending.

IX. **Assignment/ Change in Loan Limits:** Any assignment of loans by any of the lenders can be done only with the mutual consent of both the lenders. Further, any change in loan limit of the co-lending facility can be done only with the mutual consent of both the lenders.

X. **Grievance Redressal:** It shall be the responsibility of the Company to explain to end borrower regarding the difference between products offered through the co-lending model as compared to its own products. The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with the Company and/or Bank shall also be shared with the Bank/ Company and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for the Company or the Customer Education and Protection Cell (CEPC) in RBI as laid out in the Fair Practices Code adopted by the Company.

XI. **Business Continuity Plan:** Both the bank and the NBFC shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement.

XII. **Documentation Requirements**- The documentation requirement for all co-lending transactions shall be as mutually agreed between both the Parties.

XIII. **AUDIT** - The loans under the Co-Lending Model shall be subjected to periodic internal / statutory audit within to ensure adherence to its internal guidelines, terms of the agreement.

XIV. **Safe Custody of loan documents**- Executed documents custody can be kept with any of the parties as per master agreement executed between the parties.

XV. **Adherence to regulatory guidelines**- The Company 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 including following IRAC norms and reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.

XVI. **Loan Appraisal Process**- The Credit Underwriting by the Company shall be done in accordance with its Credit policy/ product note of the Company. In the event of any difference in the Co-lending arrangement and the credit policy of the Company, approval shall be sought for the same.

Policy Severable

This policy constitutes the entire document in relation to its subject matter. In the event that any term, condition or provision of this policy being held to be a violation of any applicable law, statute or regulation, the same shall be severable from the rest of this policy and shall be of no force and effect, and this policy shall remain in full force and effect as if such term, condition or provision had not originally been contained in this Policy. Further, the regulatory guidelines as prescribed shall prevail in the event of any amendments or requirements not incorporated in the policy.

Amendment

Any change in the policy shall be approved by the Board of Directors of the Company. Any amendment in the regulatory guidelines shall prevail and necessary amendment shall be carried out at a subsequent date in the policy. The Board of Directors of the Company shall have the right to withdraw and / or amend any part of this policy or the entire policy, at any time, as it deems fit, or from time to time, subject to applicable law in force.