EDELWEISS HOUSING FINANCE LIMITED

Co-lending Policy

Adopted in the Board Meeting held on: September 18, 2019
Last Reviewed in the Board Meeting held on: May 06, 2022

Co-lending Policy

1. **Preamble**

Pursuant to the Reserve Bank of India ("**RBI**") circular dated September 21, 2018 on co-origination of loans by Banks and NBFCs for lending to priority sectors, the Board of Directors of Edelweiss Housing Finance Limited ("**EHFL**") approved co-lending policy in its meeting dated September 18, 2019.

Reserve Bank of India has issued a circular dated November 05th, 2020 on Co-Lending by Banks and NBFCs (Including Housing Finance Companies) to Priority Sector (RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04.09.01/2020-21) ("Circular") superseding its earlier circular dated September 21, 2018 on co-origination by banks and NBFCs for lending to priority sectors. Under the new Circular of RBI Co-Origination between Bank and NBFC, the policy is rechristened as Co-Lending Model ("CLM") and the Circular introduced changes to bring operational flexibility to the lenders.

The aim of this Policy is to align the Co-lending Policy with the Circular and supersedes the earlier Board approved policy.

2. **Objectives of EHFL CLM Policy**

EHFL has received enquiries from major banks to mutually explore Co-lending opportunity this includes expression of interest from some of our existing co-lending partner Banks. EHFL's key objective is to promote business growth by leveraging the strength of EHFL and the participating bank. This document is to formulate the CLM Policy for EHFL.

EHFL proposes to engage with eligible banks for exploring CLM opportunities across its existing and new products / segments which qualify as per the Circular.

The target set of eligible Banks for CLM shall exclude foreign banks (including WOS) with less than 20 branches.

3. **EHFL Engagement Models with Banks under CLM**

EHFL shall, on the basis of discussion with eligible Banks, enter into CLM Master Agreements for implementing the model by either

a. the bank to mandatorily take their share of the individual loans as originated by the NBFC in their books (herein after referred to as "Model 1") or

b. retain the discretion to reject certain loans subject to its due diligence (herein after referred to as "Model 2").

3.1 Wherein 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 EHFL, 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 EHFL 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.
- The bank shall also be required to 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.

3.2 Wherein Model 2

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

4. **Products for Co-lending**

EHFL will agree a common product program with the bank / CLM partner. The product program will include the origination and disbursement policies and guidelines, in consultation with the partner.

5. **Geographical Scope**

We are proposing to explore Co-lending opportunity across the EHFL Network.

6. **Co-lending guidelines**

The proposed CLM arrangements are for the sector as eligible under the Circular from time to time. The key features of the proposed policy are summarised below:

6.1 Board Approved Policy

- EHFL, through this document, proposes the CLM Policy to comply with the Circular and explore partnerships with Banks.
- EHFL may have to share copies of this policy with partner bank(s), and on its website to comply with the Circular.

6.2 Sharing of Risk and rewards

- For all loans under CLM arrangements EHFL will directly hold exposure as per the extant RBI policy. Currently the policy requires that originating NBFC should hold minimum 20% of the credit risk (20 % share of the individual loans on their books) until maturity. This may be increased subject to agreed appropriate terms and the nature of the mutual agreement with Banks.

6.3 Commercials

- Interest rate- 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.
- Fees and Expense sharing for other activities- Appropriation between the Co-lenders may be mutually decided basis mutual agreement with Banks.
- AUM / Servicing Fees / Any other commercial terms– Would be agreed mutually with Banks

6.4 Due Diligence (Know Your Customer)

EHFL will adhere to applicable KYC/ AML regulatory guidelines, as prescribed by RBI and any other regulation as stipulated by RBI from time to time.

6.5 Credit Appraisal

EHFL finance has an existing underwriting framework and all the loans will be evaluated based on the existing diligence process and suitably adapted to adhere to the mutually agreed SOP with partner Banks as may be required from time to time.

Bank shall be entitled and responsible to independently assess the credit risks of the applicant borrowers being proposed under CLM.

The detailed Standard Operating Process (SOP) would be created in discussion with the partner banks following the CLM Master Agreement being entered into.

6.6 Loan Sanction

Under the CLM arrangements, the process of sanction letter issuances and the loan agreement execution would be detailed in the SOP as mutually agreed with Partner Banks

6.7 Borrower Loan Documentation

Necessary disclosures in the Borrower Loan Agreement would be required as mandated in the RBI circular

6.8 Audit

The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and EHFL to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

6.9 Customer Service & Grievance Redressal

- EHFL shall be the single point of interface for the customers and shall generate a single unified statement of the Borrower Loan under CLM, through appropriate information sharing arrangements with the bank.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Banks and EHFL therein shall be applicable in respect of loans given under the arrangement.
- EHFL shall be responsible for grievance redressal, suitably within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

6.10 Escrow Accounts

EHFL and the partner Bank shall open escrow accounts with the partner Bank acting as the Escrow Bank.

Under Model 1:

Escrow Disbursal Account shall be used for:

- EHFL & Bank to pool in funds for Borrower Loan disbursal in their respective sharing ratio and

Escrow Collections Account shall be used for:

- Collection from Borrower repayments to be pooled in and
- Appropriation of Funds between Lenders as per agreed terms

Under Model 2:

Escrow Disbursal Account shall be used for:

- EHFL to pool funds for Borrower Loan disbursal and
- Bank to remit its share for EHFL as per the agreed ratio

Escrow Collections Account shall be used for:

- EHFL to pool funds for Borrower Loan disbursal and
- Appropriation of Funds between Lenders as per agreed terms

6.11Monitoring and Recovery

EHFL will continue to monitor and collect receivables from loans disbursed, akin to any other disbursement. EHFL has a robust risk review mechanism at both: portfolio level and at individual loan level. EHFL, in consultation with CLM partner, may also choose to act and enforce the legal contract with the borrower if the situation so arises.

6.12 Security and Charge Creation

For CLM Loans the security and charge where applicable will be created as agreed between the co-lenders.

6.13 Provisioning/Reporting Requirement

EHFL will follow the provisioning requirements including declaration of account as NPA, as per the applicable regulatory guidelines. EHFL shall also carry out the respective reporting requirements as per applicable law and regulations for its portion of lending.

In case, if participating bank/NBFC, due to their internal guidelines, wants to create any prudent provisioning, then it shall not impact the other bank/NBFC.6.14 Direct Assignment Transaction between EHFL and Bank

Loans originated by EHFL 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 SOP

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6.15 Assignment / Change in Loan Limit

Both lenders can enter into a third party loan assignment agreement with the mutual consent of the other party for assigning their share in the CLM Loan by complying with the Circular

6.16 Loan Limit

Further, any change in CLM loan limit being offered under CLM arrangements will be done only with the mutual consent of both the lenders.

6.17 Business Continuity Plan

Notwithstanding termination of CLM Master Agreement, both Lenders agree and acknowledge that Borrower servicing shall be rendered till each loan originated under this CLM agreement is completely repaid or settled as detailed in the SOP.