



CO-LENDING Policy

Objective

In September 2018, the RBI had announced "co-origination of loans" by banks and Non-Banking Financial Companies (NBFCs) for lending to the priority sector. "The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards", the RBI said. Refer Circular- RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19 & Review of regulatory framework for HFC- refer circular RBI/2020-21/60 DOR.NBFC (HFC).CC.No.118/03.10136/2020-21.

In recent past with Asset Liability Management (ALM) and Liquidity crisis hovering over NBFCs, Coorigination in lending also called Co-lending is next big wave for lending market. By explanation, Colending is when HHF and Co-lending partner come together to disburse loans. It is a win-win situation for both the HHF and Co-lending partner, wherein HHF can disburse substantial funds and Co-lending partner can leverage their penetration and reach to the unbanked geographical areas of the country. HHF have challenge in reaching the last mile customer in rural areas and this gap is potentially filled by Co-lending partner, as they have their foot prints in the interior parts of rural India. Risk assessment play vital role in such arrangements of Co-lending as it needs to be crafted jointly to meet the compliance requirements of both HHF and Co-lending partner.

Scope

HHF is present PAN India, generation and monitoring of business in Tier 3 and 4 locations requires specific skills and abilities to be on top of the customer's activities for day-to-day monitoring of our assets and recovery of dues on a more regular basis, say daily or weekly or fortnightly.

Banks and larger NBFC's with lower cost of funds are penetrating aggressively into the attractive affordable segment and hence there is a business case for us to diversify into new areas, while mitigating our risks as well as protecting our spreads.

Local financiers like small HFC, NBFC's have a deep penetration into the Tier 3 and 4 locations with localized knowledge about the market, close contact with the customers on a daily basis and are in a much better position to understand the needs of the customers and also appraise their credit worthiness.

Their operations would be restricted to few small locations where they specialize and have limited capacity to expand their business. An arrangement with a bigger financier would help them to increase their coverage and tap the full potential of the location in which they specialize while this offers the bigger financier an opportunity to increase penetration into the hinterland.

Key benefits for HHF

Co-lending is an ideal model for doing Housing Finance, which can give good returns without much investment on infrastructure and manpower. This model will help HHF to acquire new customers without direct efforts. Since Co-lending partner's collection and resale mechanism is extremely localised, loss due to non-payment of dues or repossession can be averted in this portfolio.

Ability to penetrate rural markets without investing in infrastructure and resources. Limited risk as risk sharing is with the Co-lending partner who has skin in the game. Reduction in operating expenses as complete operations would be managed by the Co-lending partner (Borrower).

Partnership Model and engagement

Selection Criteria for the Co-lending Partner

The Financier who are registered as NBFC and having decent and healthy portfolio can be appointed as Co-lending partner.

Following are the eligibility criteria in selection of Co-lending Partner -

1. Should have been in the business of financing Housing Loan & Loan against property.
2. Have a Net Owned Funds of at least Rs.20 Cr.
3. Should be a registered NBFC/HFC.
4. NBFC/HFC Should produce at least one NHB Inspected report without any material impact.



Process of appointment of Co-lending Partner

Key parameters for finalizing the exposure limit of a Co-lending Partner are his experience, Net worth and scores achieved as per the scoring sheet.

Proposals for appointment of Co-lending partner would be sourced by Zonal business head and the Zonal/Regional credit Manager would do the preliminary verification of the Co-lending partner.

- (a) The business operations of the Co-lending partner
- (b) Study the business process including the sourcing and underwriting norms
- (c) Compliance to KYC policies as per RBI Guidelines
- (d) Documentation process which includes pre-disbursement documents and post disbursement documents
- (e) Technology adopted & data protection as per Technology Act,2000.
- (f) Collection process
- (g) Accounting policies of the Co-lending Partner
- (h) Stock-holding process
- (i) Check on quality of manpower in sourcing
- (j) Check on customer selection and underwriting process
- (k) Verification of the portfolio of the Co-lending partner including off books portfolio
- (l) Validation of collections and remittance into bank
- (m) IT Infrastructure of both parties to be evaluated for compatibility

On receipt of the proposal duly recommended by the Zonal/Regional credit Manager, due-diligence of the Co-lending partner would be undertaken by internal team and they shall do

- (a) Verification of documents submitted by the Co-lending partner
- (b) Over all valuation and ranking of the Co-lending partner based on parameters
- (c) Arriving the co-lending scores using templates

Proposal would then be placed before the COO for his final decision.

Exposure limits, Products, area of operation, Co-lending Participation ratio and base rate will be decided by HHF at this stage in line with policy and enter into agreement with Co-lending partner.

There shall be a separate agreement between HHF and Co-lending partner where the Co-lending partner would be appointed as Co-lending partner of HHF for sourcing business and for collection of money from the borrowers on behalf of HHF and he is entitled to his share of profit and participation (pay-out) on monthly basis.

This agreement covers roles and responsibilities of the Co-lending partners and HHF along with the covenants mentioned herein. This would also carry the covenants of the Fair Practice Code of HHF which would be binding on the Co-lending partners.

Process and Policies:

Underwriting process & Operation

- A. Co-lending partners shall be allowed to source business agreed by HHF & Co-lending partner. They shall source business strictly from the regular channels in the market as approved by both the parties and in accordance with the prevailing norms of HHF.
- B. Co-lending to be done for retail business (Individual Borrower) not for wholesale business.
- C. All proposals shall be screened by the Credit Team of the Co-lending partner before being referred to HHF. Co-lending partner should complete the field Investigation of both Borrower, Co- Borrower and Guarantor.
- D. All verification of the Borrower, Co-Borrower and Guarantor to be conducted by the Co-lending partner as per HHF guidelines.
- E. Borrower, Co-Borrower, Guarantor, Co-lending partner and HHF shall execute the standard tripartite loan cum hypothecation agreement for each loan proposal.



- F. All documentation formalities which include verification of KYC documents of Borrower, Co- Borrower and Guarantor, Pre-disbursement documents, to be completed by the Co-lending partner and the details need to be entered in the ERP of HHF. KYC will mandatorily be verified by HHF staff
- G. On receipt of the complete documentation as per the credit norms of HHF, loan will be disbursed as per the request of Co-lending partner. Post disbursement documents to be submitted by Co-lending partner to HHF within the stipulated time. HHF have all the rights to demand the Co-lending partner to settle the loans, in case Co-lending partner failed to submit the Post disbursement documents on time.
- H. HHF may, as and when required, conduct such verifications like Residence, Employment, Business, Any documents verification by HHF Executive or RCU sample cases.
- I. Customer servicing shall be undertaken by Co-lending partner.

Collection, Accounting and Remittance

- A. An Escrow account administered by a trustee would be opened and all remittances including NACH/ECS/PDC credits would be taken into the designated account.
- B. The trustee would be responsible for the appropriation of the funds by both party's basis the mutual agreement.
- C. Co-lending partner shall be responsible for collection of dues from the Customer(s), as per the agreed terms.
- D. Co-lending partner shall keep a demand list of all loan contracts sourced by them and underwritten by HHF based on which they shall collect the amounts due from the respective borrowers.
- E. NACH should be presented by HHF & the returns shared with co-lending partner.
- F. The repayment amount of the Loan(s) shall be collected in such bank account of Co-lending partner / any one of the parties, as may be agreed by the Parties from time to time.
- G. Any differential amount of EMI received by NACH, HHF should liable to pay Co-lending partner as per decided agreement.
- H. In case of default by any Customer(s), Co-lending partner shall be liable to collect the dues from such Customer(s) in the form of cash (as permitted under applicable laws) / cheques / drafts /NEFT etc., Two working days prior to the expected date of account turning into NPA, the Co-Lending Partner shall transfer the appropriate amount, post NPA the entire overdue shall be transferred by off-setting against the collateral effect.
- I. In the event, Co-lending partner fails to deposit / transfer the amount as stated under above clause (d) and / or (e), Co-lending partner shall be inter alia liable to pay default / additional interest to HHF on such amount at the rate of 2.00% (Two Percent) per month, for the period of delay / default.
- J. Co-lending partner shall follow the due collection process by sending reminders, soft calling, hard calling and repossession as the case warrants, on behalf of HHF to collect the arrears of instalments.
- K. The parties may explore and open an escrow account for collection as well as disbursement and the details, terms and conditions of such escrow arrangement shall be mutually agreed upon and the Parties shall enter into such agreements as may be necessary for this purpose.
- L. HHF Disbursement amount to be frozen as per decided participation ratio in escrow account.
- M. Any amount received on the account of subsidy under any Government announced Scheme (Like Pradhan Mantri Awas Yojana), shall be appropriated by the both the Parties in proportion to their respective share in the Loan.
- N. Co-lending partner shall provide an unconditional and irrevocable guarantee (CG/PG/FD lien marked in favour of HHF) to the extent of 5.00% (Five Percent) of the total amount of outstanding Loans, in favour of HHF guaranteeing the repayment of dues payable by the Customers to HHF under the Loans.
- O. Foreclosure approval to be taken from HHF prior giving confirmation to the borrower.
- Q. Settlement of loan will happen on the base rate after considering all cash flows from Co-lending partner's, which includes participation and pay-out. NOC will be issued to Co-lending partner after collecting the entire due for the specific loan.



Undertaking collection activity and follow-up for recovery of dues from the Customer(s), including but not limited to,

- a. Issuing an appropriate receipt to the Customer(s) for the collection done.
- b. sharing with HHF the details of the Customer(s) who have defaulted in their payment obligations and in respect of whom Co-lending partner is required to undertake the recovery process.
- c. Taking necessary measures for informing the defaulting Customer(s) about their default(s), by available modes of communications including but not limiting to telephone calls and/or by written communications including legal notices etc.
- d. Following the guidelines issued by RBI, as applicable, in relation to the collection activity and be liable for compliance with such guidelines in all respect at all times.

Accounting-

- 1) HHF will do tracking of unrecovered account.
- 2) For part payment cases, Co-lending partner will transfer the funds to HHF apportioned to HHF's disbursement with expected effect confirmation (Tenor or EMI), so accordingly HHF will give part payment effect in their system.
- 3) In pre closure scenario on Co-lending partner's request, HHF will share FC statement for HHF disbursed amount with Co-lending partner and Co-lending partner will share FC payment details with HHF for HHF system closure

Inspection and Right to Audit:

Co-lending partner & HHF should keep a complete and accurate records related to their respective operations and expenses on periodically basis. All said records shall be kept on file by the concerned Party for such period as may be required under the applicable retention policy or under the provision of applicable laws and regulations / guidelines issued by RBI from time to time. and in any event, shall not be extinguished without first having duly and adequately and timely informing the other Party.

Provision for recovery of Loss

HHF shall adjust the outstanding Co-lending partner participation amount towards the contracts where due is more than 90 DPD.

Suspension of business with Co-lending Partner

Business with Co-lending partner will be suspended temporarily or permanently on non-adherence to the terms and conditions of the contract.

Grievance Redressal- Complaint Handling Procedure

The Parties shall adhere to the following process for resolving the complaints / grievances of the Customer(s):

1. All customer queries and complaints shall be handled by Co-lending partner.
2. Any Service-related issues to be raised to HHF within T+1 days.
3. On receipt of the Complaint from any Customer, Co-lending partner shall note the details of the Customer and its grievance and provide the acknowledgment to the Customer(s), and shall take necessary steps or actions to resolve the complaint within 15 (Fifteen) days from the date of its receipt, to the satisfaction of the Customer.
4. In case, Co-lending partner fails to resolve the complaint within 15 (Fifteen) days from the date of its receipt, Co-lending partner shall inform HHF about the same, after which HHF and Co-lending partner shall jointly endeavour to resolve the complaint within 30 (Thirty) days from the date of its receipt.
5. Co-lending partner and HHF shall endeavour to resolve the queries and complaints of the Customer(s) as per the applicable guild lines / regulations, as may be issued / revised by RBI and any other appropriate authority, from time to time.
6. Co-lending partner shall keep the records of the complaints received from the Customers and its resolution and shall provide such records to the HHF, as and when required by HHF.



Mitigation of Risk

A. Regular audit of books of accounts of Co-lending partner will be conducted by HHF to understand the portfolio health of Co-lending partner. The frequency of the same shall be incorporated in the partnership agreement.

B. In addition, random verification of assets and customers will help to analyse the quality of business done through Co-lending partner. In the event of termination of the co-lending agreement, the co-lending partner is liable or responsible to service the customer for the loan tenor. In case, Co-lending partner fails to service the customer HHF will directly or through its agent continue to service the customer.