mahindra FINANCE

Policy on Co-Lending Model (CLM)

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Background & Objective

The Reserve Bank of India circular FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 05, 2020 banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

MMFSL proposes to engage with eligible banks, financial Institutions and NBFCs ("Lenders") for exploring co-lending opportunities across its existing and new products / segments.

The Policy will be applicable to all the categories of products and services offered by MMFSL under the co-lending model and apply to related operations such as customer sourcing, loan processing, loan servicing and collection activities.

For Co-Lending partnerships which fall under the purview of Digital Lending guidelines, Default Loss Guarantees may be obtained to additionally cover the credit risk. In light of the Reserve Bank of India circular RBI/2023-24/41 DOR.CRE.REC.21/21.07.001/2023-24 dated June 08, 2023- Guidelines on Default Loss Guarantee (DLG) in Digital Lending lays out principles and guidelines on obtaining Default loss Guarantee for any arrangement between Regulated Entities (REs) and Lending Service Providers (LSPs) or between two REs involving default loss guarantee (DLG), commonly known as FLDG, falling under the purview of Digital Lending.

Section ~~7~~ 8 of this document captures the modalities of obtaining Default Loss Guarantee in such cases.

Default Loss Guarantee can also be obtained for non-Digital Lending Co-Lending arrangements and the modalities for the same will be defined at a partnership level and will not be governed by the modalities as given in Section 7 of this document.

1 MODE OF ARRANGEMENT

MMFSL shall enter Co-Lending Arrangement as per the below mentioned modes or options either as an originator or a partner.

1.1 CLM I

Participating Institutions to mandatorily take in their books, their share of the individual loan.

If the Agreement entails a prior, irrevocable commitment on the part of the Participating Institution to take into its books its share of the individual loans, 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 Participating Institution and MMFSL shall have to put in place suitable mechanisms for ex-ante due diligence by the Participating Institution as the credit sanction process cannot be outsourced under the extant guidelines.

1.2 CLM II

Participating Institutions retain the discretion or right to reject certain loans subject to its due diligence before taking on their books.

If Participating Institution exercises its discretion regarding taking into its books the loans originated by the originator as per the Agreement, the arrangement will be similar to a direct assignment transaction. Accordingly, the Participating Institution 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/201112/540 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 Participating Institutions and MMFSL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

MMFSL shall be required to retain a minimum 20% share of the individual loans on its book for both the Options detailed above.

2 Execution of Master Agreement

A CLM Agreement shall be entered into between Participating Institution and MMFSL outlining the terms and conditions of Co-Lending arrangement including but not limited to specific details of product, areas of operations, criterion for partner selection, provisions related to segregation of responsibilities as well as customer interface and protection issues.

The Master Agreement may provide for the Participating Institutions to either mandatorily take their share of the individual loans originated by MMFSL in their books as per the terms of the agreement or to retain the discretion to reject certain loans after their due diligence prior to taking in their books Loan amount.

The Master Agreement shall clearly specify the manner of appropriation between the Co-lenders.

The Master Agreement may contain necessary clauses on representations and warranties which MMFSL shall be liable for in respect of the share of the loans taken into its book by the Participating Institutions.

3 Operational Aspects: -

1. **Single Point of Interface** - 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 Participating Institutions.
2. **Disclosures** - All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.

3. **Interest Rate** - The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by MMFSL and Participating Institutions jointly and conforming to the extant guidelines applicable to both.

4. **Customer Service & Fair Practice** - The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Participating Institutions and MMFSL therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

5. **Unified Statement** - Originator should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Participating Institutions.

6. **Grievance Redressal** - Suitable arrangement must be put in place by the Participating Institutions to resolve any complaint registered by a borrower with MMFSL/Originator 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.

7. **Exposure wise Borrowers Account -** MMFSL and Participating Institutions shall maintain each individual borrower's account for their respective exposures.

8. **Disbursement & Repayments -** All transactions (disbursements/repayments) between MMFSL and Participating Institutions relating to CLM shall be routed through an escrow account maintained by the Participating Institution, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the Co-lenders.

9. **Framework for Monitoring & Recovery** - Both the Co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.

10. **Security Creation** - MMFSL & Participating Institutions shall arrange for creation of security and charge as per mutually agreeable terms.

11. **Asset Classification** - MMFSL and Participating Institutions shall 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.

12. **Audit -** The loans under the CLM shall be included in the scope of internal/statutory audit within MMFSL and Participating Institutions to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

13. **Assignment of Loans -** Any assignment of a loan by MMFSL and Participating Institutions to a third party can be done only with the consent of the other party.

14. **Business Continuity** - MMFSL and Participating Institutions shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between MMFSL and Participating Banks/FI/NBFCs.

15. **Outsourcing of Services** – MMFSL will adhere to extant guidelines on outsourcing of financial services and the outsourcing policy approved by the Board.

16. **IT & Infrastructure**- Business team will ensure that the co-lending arrangement will have well equipped IT solution to manage the arrangement.

17. **KYC verification and record management**: MMFSL & participating institution should clearly define the roles and responsibility regarding obtaining and verification of KYC documents and record management. MMSFL will have rights to access the KYC / loan documents as and when required.

18. **Customer service**: Agreement should clearly define the role and responsibilities for servicing the customer which includes closure of the loan, waiver of charges, changes in demographic details of the customers and flow of information between both the co-lending agencies. The accounting and reconciliation process should also be defined in the note.

4 PARAMETERS FOR SHORTLISTING NBFC/FI (NOT APPLICABLE FOR BANK PARTNERS)

The Company can enter into co-lending arrangement with such NBFC/FI which confirm to the following indicative parameters:

- Has a Vintage of not less than 3 Years.
- Only Middle and Upper Layers NBFCs as classified by RBI to be allowed.
- Portfolio NNPA not be > 4.50%
- Has sufficient skilled human resources to originate, collect and service assets in the defined product segment.
- Has sufficient systems & processes in place for loan management, collection, portfolio management and reporting.
- Promoters / Key management profile and lending experience
- Risk management department will evaluate the partners targeted for co-lending. In line with the regulatory guidelines, the Company will not enter co-lending arrangement with an NBFC/FI belonging to the promoter Group.
- Minimum CRAR required would be 15% (as stipulated by RBI)

Limits for selection of originator During the first 12 months of the relationship, the exposure on the Originator FI not to exceed the below threshold:

Rating of Originator	Max Exposure (POS)
Rating B or below or unrated	Not Permitted
BB/BBB	INR 500 Cr
BBB+, A, A-, A+ and above	INR 1000 Cr

Any deviation to the parameters / exposure mentioned above shall be subject to the approval of committee as mentioned point 6.

4.1 Legal Documentation w.r.t NBFC/FI Partners

The following one or more legal documents shall be executed basis the advice of MMFSL's legal counsel for the CLM transactions

- **Master agreement** –
  The Company shall enter into an agreement with the identified NBFC/FI for co-lending and it shall have detailed description of roles and responsibilities of both the parties along with terms and conditions for co-lending. The agreement entered into by the Company and NBFC/FI for implementing the CLM may provide the Company to mandatorily take their share of the individual loans as originated by the NBFC in their books or retain the discretion to reject certain loans after its due diligence prior to taking in its books. Below is the indicative list of parameters which will be part of agreement entered between the Company and NBFC/FI Specific product lines and areas of operations
- **Ratio of co-lending**- Minimum 20% of the credit risk by way of direct exposure shall be on originator's books till maturity and the balance shall be on the Company books.
- **Terms of sanction**- The transferor will source and underwrite the loans as per Co-lending framework agreed between the Company and the originator Arrangement for creation of security and charge.
- Mode of disbursement and repayment along with the manner of appropriation Framework of broad Operational process for customer onboarding, servicing, monitoring and recovery
- The Master Agreement may contain necessary clauses on representations and warranties which the originating NBFC shall be liable for in respect of the share of the loans taken into its books by the Company.
- Segregation of responsibilities
- Compliance with applicable regulatory requirements and Fair practices code Customer Grievance Redressal Mechanism
- Business continuity plan in the event of termination of co-lending arrangement
- Terms & conditions for assignment of loans by the Company or NBFC
- Others as deemed necessary
- ESCROW agreement
- Deed of Assignment
- Collection and Service Agreement (if not captured in the Deed of Assignment)
- Service Provider or Collection and Payout Agreement (**if applicable**).

The above-mentioned list is indicative in nature and approval on all the documents will be taken from internal legal counsel of MMFSL.

4.2 Appointment of Alternate Service Provider To safeguard the interest of the Company

On occurrence of certain structures/events, it may appoint an entity other than the Originator as the Service Provider / Collection & Pay-out Agent. An Alternate Service Provider may be appointed at the discretion of the Company, after giving prior notice to the existing service provider. The appointment of Alternate Service provider shall require the approval of committee as defined in the approving Authority section. Appointment of Service Provider/Collection & Payout Agent/Alternate Service Provider shall be in compliance with regulator's guidelines on outsourcing of non-core activities.

5 APPROVING AUTHORITY

Any Co-lending arrangement between MMFSL & Participating Institution shall be approved by the following Committee within the ambit of this policy and/or RBI Guidelines as amended from time to time:

Members of Approving Committee	Quorum
1. Vice Chairman & Managing Director 2. Chief Operating Officer – Core Business/MD & CEO Designate 3. Chief Financial Officer	Any 2 out of 3

All proposals to be evaluated and vetted by CRO. All fresh relationships to be placed with PAC as well.

6 SCOPE AND LIMITATION

RBI Guidelines, Circulars, Statutory enactments, rules, laws etc.("applicable laws"), as amended from time to time and applicable to this Policy, shall prevail and will be complied even if the said applicable laws are not specifically incorporated in this Policy.

In the event of any conflict between the provisions of this Policy and the applicable laws, as amended from time to time, the stricter provisions, compliant with the law shall prevail.

7 POLICY REVIEW:

The Policy shall be subjected to review basis amendments in the regulations (if any) as notified by the regulator from time to time or 12 months or whenever there is a breach in the portfolio guardrail, whichever is earlier.

Portfolio Guardrails:

AUM under CLM arrangement	Rs 5000 Cr
Portfolio GS 3 to % of AUM under CLM arrangement	4.0 %

8 MODALITIES OF OBTAINING DEFAULT LOSS GUARANTEE IN CO-LENDING ARRANGEMENTS FALLING UNDER THE PURVIEW OF DIGITAL LENDING GUIDELINES VIDE RBI/2023-24/41 DOR.CRE.REC.21/21.07.001/2023-24 DATED JUNE 08, 2023- GUIDELINES ON DEFAULT LOSS GUARANTEE (DLG) IN DIGITAL LENDING

8.1 DEFINITIONS

Default Loss Guarantee: A contractual arrangement, between MMFSL and a Lending Service Provider (LSP) or other RE (Bank or NBFC) with which MMFSL has entered an arrangement, under which the latter guarantees to compensate MMFSL, loss due to default up to a certain percentage of the loan portfolio of the MMFSL, specified upfront. Any other implicit guarantee of similar nature linked to the performance of the loan portfolio of MMFSL and specified upfront, shall also be covered under the definition of DLG.

8.2 NATURE OF DLG

DLG arrangements will be backed by an explicit legally enforceable contract between the MMFSL and the DLG provider. Such contract, among other things, must contain the following details:

1) Extent of DLG cover
2) Form in which DLG cover is to be maintained with the MMFSL
3) Timeline for DLG invocation
4) Disclosure requirements – DLG provider to publish on website the total number of portfolios and the respective amount of each portfolio on which DLG has been offered.

8.3 FORMS OF DLG

MMFSL shall accept DLG only in one or more of the following forms:

a. Cash deposited with the MMFSL
b. Fixed Deposits maintained with any Scheduled Commercial Bank/ MMFSL with a lien marked in favour of the MMFSL.
c. Bank Guarantee in favour of the MMFSL.

8.4 EXTENT OF DLG

MMFSL shall ensure that total amount of DLG cover on any outstanding portfolio which is specified upfront shall not exceed **five per cent** of the amount of that loan portfolio. In case of implicit guarantee arrangements, the DLG Provider shall not bear performance risk of more than the equivalent amount of five per cent of the underlying loan portfolio.

8.5 Recognition of NPA

Recognition of individual loan assets in the portfolio as NPA and consequent provisioning shall be the responsibility of MMFSL as per the extant asset classification and provisioning norms irrespective of any DLG cover available at the portfolio level. The amount of DLG invoked shall not be set off against the underlying individual loans. Recovery by MMFSL, if any, from the loans on which DLG has been invoked and realised, can be shared with the DLG provider in terms of the contractual arrangement.

8.6 Treatment of DLG for regulatory capital

Capital computation, i.e., computation of exposure and application of Credit Risk Mitigation benefits on individual loan assets in the portfolio shall continue to be governed by the extant norms.

8.7 Invocation of DLG

MMFSL shall invoke DLG within a maximum overdue period of 120 days, unless made good by the borrower before that.

8.8 Tenor of DLG

The period for which the DLG agreement will remain in force shall not be less than the longest tenor of the loan in the underlying loan portfolio.

8.9 Due Diligence & other requirements with respect to DLG provider

8.9.1 Eligibility Criteria of DLG provider

The eligibility criteria for DLG provider shall be as listed in section 4 of this Policy document.

8.9.2 Monitoring and reviewing the DLG arrangement

All DLG arrangement will be monitored and reviewed Annually or based on any contractual breach. A declaration from the DLG provider, certified by the statutory auditor, on the aggregate DLG amount outstanding, the number of REs and the respective number of portfolios against which DLG has been provided, shall be obtained at the time of on-boarding or at the time of renewal. The declaration shall also contain past default rates on similar portfolios.

8.9.3 Details of Fee

All Fee structures (If any) will be approved by the approving authority as per point 5 of this document.

8.9.4 Cooling off/look-up period during which borrower shall not be charged any penalty on prepayment of loan

Max upto 3 Days

Recommended by

Head Underwriting & Policy-Core Business	Chief Business Officer	Chief Finance Officer
Chief Risk Officer	ED & MD Designate	VC & MD

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Head Credit Risk-SME