IIFL Finance Limited

Policy – Co-Lending Model

Document Version controller

Document Name: Policy on Co-Lending – IIFL Finance Limited (NBFC)	
Version:	V1 April 2022
Version:	V2 April 2023
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Approved By:	Kirti Timmanagoudar
Effective Date:	April 28, 2023

Background:

The Reserve Bank of India vide its circular No. RBI/2020-21/63 FIDD.CO.Plan. BC.No.8/04.09.01/2020-21 dated November 05, 2020 (superseding the earlier circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018) has issued guidelines on co –lending of loans by Banks and NBFCs to Priority Sector. The arrangement entails joint contribution of credit at the facility level by both the lenders as also sharing of risk and rewards.

The primary focus of the revised scheme, rechristened as "Co-Lending Model" (CLM) is to improve the flow of credit to the unserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs.

As per the clarification provided to banks by RBI, Bank may co-originate non-priority sector loans with other Banks and NBFCs under co-lending guidelines already issued by RBI

In this documents henceforth all such partner banks/NBFCs/FIs for priority sector as well as non-priority sector will be termed as "co-lending partners".

Accordingly, IIFL Finance Limited, in compliance with this circular is adopting the following policy on Co-lending of loans.

Norms of Agreement between IIFL Finance Limited & Co-Lender:

- A Master Agreement shall be entered into between IIFL Finance Limited and the partner institutions which shall inter-alia include, terms and conditions of the arrangement, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues.
- The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans, originated by IIFL Finance Limited, 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 Sharing:

- The co-lending banks will take their share of the individual loans on a back-to-back basis in their books.
- IIFL Finance Limited shall retain a minimum of 20 per cent share of the individual loans on its books; the percentage of retention by IIFL Finance Limited in all cases shall be guided by the terms of agreement between IIFL Finance Limited and banks.

Modus operandi:

Credit Norms:

In accordance with IIFL's credit norms, once a client has agreed to commercial terms, evaluation is done based on various parameters like:

- Past history of borrowing with the co-lenders as well as other lenders, if any, various credit checks viz. bureau, internal dedupe, and fraud check, basic KYC documents like Aadhaar Card, PAN, Voter ID etc.
- Assessment of income, business vintage, and stability.

The above terms shall be defined on finer lines under the co-lending credit norms to be mutually agreed with the bank. For all the cases sourced IIFL Finance Limited shall abide by said norms.

Approval norms:

IIFL Finance Limited shall not outsource credit decisioning process. Further, it shall ensure to seek approval from partnering bank via ex-ante due diligence by the bank in all cases where the master 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 IIFL Finance Limited.

If the bank can exercise its discretion regarding taking into its books the loans originated by IIFL Finance Limited as per the Agreement, the arrangement will be akin to a direct assignment transaction 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 NBFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

Interest Rate

- IIFL Finance Limited and the partnering bank shall have the flexibility of pricing their part of exposure in accordance with internal pricing strategies, however, the ultimate borrower shall be charged an all-inclusive interest rate.
- Upon repayment, the interest shall be shared between IIFL and the bank in proportion to their share of credit and interest.

Fund Management

- The co-lending banks and IIFL Finance Limited shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.

Other Operational Aspects

- The framework for monitoring and recovery of the loan, shall be guided as per mutually agreed terms.
- IIFL Finance Limited along with partnering bank, depending on terms of agreement, shall arrange for creation of security and charge as per mutually agreeable terms.
- IIFL Finance Limited shall adhere to the asset classification and provisioning requirement including reporting to Credit Information Companies, for its share of the loan account.
- The loans under the CLM shall be included in the scope of internal/statutory audit to ensure adherence to our internal guidelines, terms of the agreement and extant regulatory requirements.
- Any assignment of a loan under co-lending by IIFL Finance Limited to a third party can be done only with the consent of the partnering bank.
- IIFL Finance Limited shall ensure uninterrupted service to their borrowers, on-boarded under the current CLM, till repayment of the loans even in the event of termination of co-lending arrangement between the co-lenders.

Provisioning

- In event of default, provisions shall be provided in books for the mentioned loan (IIFL part) as per IIFL's board approved policy. Any additional provisions shall be made on case-to-case basis.

Customer related issues

- The IIFL Finance Limited 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 IIFL Finance Limited and banks.
- All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and IIFL Finance Limited therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
- IIFL Finance Limited should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.
- With regard to grievance redressal, suitable arrangement must be put in place by the colenders to resolve any complaint registered by a borrower with IIFL Finance Limited 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.

Any other regulatory changes with respect to co-lending mechanism will stand updated in the policy from time to time.