Choice
The Joy of Earning

Choice Finserv Private Limited

Co-Lending Policy

Summary of Policy

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1. Introduction

The objective of the policy is to establish a framework for collaboration between / and CFPL to promote the flow of credit to unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the availability of funds with CFPL and greater reach of other NBFCs. The Co-lending of loans with eligible NBFCs will pertain to Retail, MSME, Renewable Energy and other type of loans as well.

2. Definitions

a) 'Co-lending' refers to the coming together of two regulated entities (lenders) to disburse joint loans to the borrowers.

b) 'Co-lending arrangement' refers where two regulated entities enter into an arrangement for the joint contribution of credit in a pre-defined ratio in the agreement executed amongst the parties.

c) 'Primary lender' refers to the party who has greater share in the co-lending arrangement.

d) 'Master Agreement' refers to the agreement, defining clear terms & conditions, entered into by both the Primary and secondary/Co-lender for entering into co-lending arrangement. The Master Agreement shall cover all the mutual agreed clauses.

e) 'Secondary lender/Co-lender' refers to the party who has smaller share in the co-lending arrangement.

f) "Minimum Holding Period (MHP)" here shall have the meaning as assigned in the Master Direction – Transfer of loan exposures September 24, 2021 and means the minimum period for which a transferor must hold the loan exposures before the same is transferred to transferee(s).

g) 'Priority Sector Lending' shall mean lending to the priority sector, limited to the products for co-lending, covered under RBI Master Direction Priority Sector Lending (PSL) - Targets and Classification dated September 4, 2020 and amendments thereafter.

h) 'Products for Co-lending' shall mean all existing products of CFPL.

i) 'Regulated Entity' shall means Bank or Non-Banking Financial Company registered with RBI and engaged in the business of lending.

j) 'Geographical Scope for co-lending' shall mean to explore Co-lending opportunities in accordance with the Master Agreement with the other partner.

3. Co-lending Arrangement Set-ups

The Policy covers general principles and practices followed by Choice Finserv Private Limited (CFPL) in the Co-Lending of loans with partner institutions.

Part A: **Bank/NBFC and Choice Finserv Private Limited**

- In such a scenario, the NBFC/Bank shall be the Primary Lender and Choice Finserv Private Limited (CFPL) shall be the Secondary Lender/Co-lender.

Part B: Choice Finserv Private Limited and any other NBFC

- In such a scenario, Choice Finserv Private limited (CFPL) shall be the Primary Lender and other NBFC shall be the Secondary Lender.

4. Part-A: Co-Lending Arrangement between Bank/NBFC (Primary Lender) and CFPL (Secondary Lender)

The CFPL shall, on the basis of discussion with eligible Banks/NBFCs, enter into CLM Master Agreements for implementing the model by either:

a) the bank/NBFC to mandatorily take their share of the individual loans as originated by the NBFC in their books (hereinafter referred to as "Option A")

or

b) retain the discretion to reject certain loans subject to its due diligence (hereinafter referred to as "Option B")

If the Bank/NBFC can exercise its discretion regarding taking into its books the loans originated by the CFPL as per the Agreement, the arrangement will be taken to a direct assignment transaction. Accordingly, the taking over Bank/NBFC 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 CLM.

The MHP exemption shall be available only in cases where the prior agreement between the CFPL and banks/NBFC contain a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

Principles and Practices

The principles and practices followed in the Co-lending arrangement with partner banks are mentioned below:

S. No	Principles	Option A	Option B

1	Sharing of Risk and Rewards	The arrangement would entail tandem contribution of credit at the facility level, by both the CFPL and the Bank/NBFC ("Lenders") basis ex-ante due diligence by the Bank/NBFC as the credit sanction process cannot be outsourced under the extant guidelines on Outsourcing.	Under this option the Bank/NBFC shall take over its share in the exposure after disbursement of the loan on back-to-back basis subject to due diligence.
		Both the arrangements would involve sharing of risks and rewards between the Lenders for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the Lenders. A minimum 20% of the credit risk by way of direct exposure shall be on the CFPL's books till maturity and the balance will be on the Bank's/NBFC's books. The CFPL will not fund its contribution towards the loan amount of borrowing from the Bank/NBFC or any other group company of the Bank/NBFC and shall give an undertaking to the Bank/NBFC that effect.	
2	Interest Rate	The CFPL would have the flexibility to price their part of the exposure, while the Bank/NBFC 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. Based on the respective interest rates and proportion of risk sharing, a single blended interest rate will be offered to the ultimate borrower in case of fixed rate loans.	The CFPL shall price the entire exposure in a manner fit as per its risk appetite or as may pre-determined with the bank/NBFC. The bank/NBFC may subject to its due diligence share the exposure and consequently the repayment/ recovery of interest in proportion to their share of credit and interest.
		However, notwithstanding the charging of a single blended rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the Bank/NBFC and the CFPL in proportion to their share of credit and interest as defined in the Master Agreement. The interest rate charged by the bank/NBFC for its portion of credit, shall be subject to applicable directions on interest rates on advances. The benefit of low-cost funds from the Bank/NBFC and lower cost of operations of the Company would be passed on to the ultimate beneficiary through the blended rate.	

		In this regard, Bank/Company shall provide all the information like loan details including interest rate and other charges, details of risk sharing arrangement, etc., as and when called for by the Reserve Bank of India.	
	Other Commercials	a) Fees and Expense sharing for other activities- Appropriation between the Co-lenders may be mutually decided basis mutual agreement between co-lenders. b) AUM / Servicing Fees / Any other commercial terms– Would be agreed mutually between co-lenders.	
3	Know Your Customer (KYC)	The bank/NBFC and CFPL shall also comply with the Master Directions - KnowYour 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.	
4	Sanction of Loan	The CFPL shall recommend to the Bank/NBFC proposals as found relevant for joint lending. The Bank/NBFC, under its irrevocable commitment to take into its books its share of the individual loans as originated by the CFPL, shall subject to ex ante due diligence mechanism as agreed between bank/NBFC and the CFPL, agree to sanction the facility to the applicant. The loan agreement would be executed between the parties wherein the Bank/NBFC and the CFPL shall be parties as lenders to the loan agreement.	The CFPL shall upon assessment agree to grant the facility to the applicant. In such case, the CFPL shall execute loan agreement with the borrower and the Bank/NBFC shall then choose to take over its share on back-to-back basis.
5	Escrow Account	The Bank/NBFC and the CFPL shall open an escrow type common account for pooling respective loan contributions for disbursal 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 CFPL, the sameshall be deposited in the Escrow account.	
6	Monitoring & Recovery	The Parties shall put in place framework and processes for monitoring and recovery of the loans.	
7	Security and Charge Creation	Arrange for creation of security and charge as per mutually agreeable terms.	
8	Provisioning/Reporting Requirement	a) The parties shall follow its independent provisioning requirements, including declaration of account as NPA, as per the applicable regulatory guidelines applicable to each of them respectively. b) The parties shall carry out their respective reporting requirements for their portion of lending, including reporting to Credit Information Companies under respectively applicable laws and regulations.	

9	Assignment/ Change in Loan Limits	Any assignment of loans by any of the Lenders can be done only with themutual consent of both the Lenders. Further, any change in loan limit of the co-lent facility can be done only with the mutual consent of both the Lenders.
10	Grievance Redressal	It shall be the responsibility of the CFPL 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 CFPL and/or Bank/NBFC shall also be shared with the CFPL 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 CFPL or the Customer Education and Protection Cell (CEPC) in RBI as laid out in the Fair Practices Code adopted bythe CFPL.
11	Business Continuity Plan	BCP shall be formulated to ensure uninterrupted service to the borrowers till repayment of the loans under the Co-lending arrangement.
12	Co-branding of documents	CFPL being the front end and representing both the lenders in front of the customer, it is desirable for the documents to have CFPL branding to smoothen the process for customer facilitation and awareness. Common Documents include but not limited to – Application form, Sanction letter, Facility Agreement and/or any other document communicated to the customer having any legal implication. However, depending upon the terms of the Master Agreement documents may also be co-branded.
13	Safe Custody of Loan documents	Executed documents custody can be kept with any of the parties as per master agreement executed between the parties.
14	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.
15	Existing Customer of CFPL	If any existing borrower of CFPL is sourced, the same shall be treated under only under co-lending subject to requisite approvals.
16	Collection	CFPL being the front end and service provider will do collectionand service agreement in this regard shall be executed with the co-lending partner.
17	Adherence to regulatory guidelines	The CFPL will ensure that it adheres to the regulations prescribed by theRBI/any other relevant regulatory body and the CFPL's policies for any loan that has been disbursed through the co- lending model in the same manner aswould have been the case if the entire loan were being disbursed solely on thebehest of the Company including following IRAC norms and reporting to Credit Information Companies, under the applicable regulations for its share of the

		loan account.
18	Loan Appraisal Process	The Credit Underwriting by the CFPL shall be done in accordance with mutually (CFPL and Bank/NBFC) agreed Credit policy/ product.

5. Part-B: Co-Lending Arrangement Between CFPL (Primary Lender) and other NBFCs (Secondary Lender/Co-Lender)

A. Proposal for co-lending arrangement with NBFC shall be reviewed on the following parameters:

- Registered NBFCs with RBI permitted to engage in the business of lending
- Past experience into the establishment of the product range for which Co-lending is proposed
- Portfolio size and geographical coverage of the NBFC
- External Rating of the NBFC, where applicable
- Borrowings from other institutions
- Required technological platform to maintain accounts and exchange necessary MIS
- Delinquency in the portfolio of the product in which Co-Lending is proposed
- NBFCs should comply all the guidelines laid down by RBI and other regulatory authorities issued from time to time including Regulatory Capital norms, Liquidity Mismatch analysis etc
- Minimum Capital Adequacy ratio as laid down by RBI for NBFCs
- NBFCs should be able to generate a single unified statement

B. Co-Lending Product: Detailed products, processes etc. will be finalised after discussion with the proposed NBFC, on case to case basis, keeping in view its target segment, area of operations, other operational issues etc. A Mutually agreed product program will be decided for every NBFC determining the model of sourcing, pricing, lending, collection and recovery mechanism, servicing fees etc. duly approved by respective competent authority. Tenure of such product program may be mutually agreed upon and to be incorporated in the Co-Lending Master Agreement by the lenders. Our products are - MSME Loan (Secured and unsecured), Vehicle Loans (including EV), Agriculture (Term Loan), Solar Finance, Supply Chain Finance (invoice discounting and Channel finance), Loan against share and Loan against mutual funds any other product if required, with prior approval of the committee.

C. Documentation: Any legal document, such as the Master Agreement, Facility Agreement, and any other document with legal implications under this arrangement, will be finalised in consultation with Secondary Lender (NBFCs) and will be vetted by the legal department of CFPL.

- **Master Agreement:** A Master Agreement shall be entered into with NBFCs (Secondary Lender) which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to

segregation of responsibilities & dispute resolution as well as customer interface and protection issues. The Master Agreement shall contain necessary clauses on representations and warranties which the originating NBFCs shall be liable for in respect of the share of the loans taken into its books by CFPL.

- **Co-branding of documents:** NBFC/Secondary Lender being the front ending partner and representing both the lenders in front of the customer, it is desirable for all the parties to have a co-branded set of documents to smoothen the process for customer facilitation and awareness. Common Documents include but not limited to – Application form, Sanction letter, Facility Agreement and/or any other document communicated to the customer having any legal implication.

- **Safe custody of documents:** The Secondary Lender (NBFC) will be responsible for the safe custody of documents like, Loan application, Loan agreement, SPDC Letter, Deed of Hypothecation, collateral documents etc., and CFPL shall have the right to inspect the books of the Co-Lending Service Provider or such other documents maintained in due course of business by giving prior intimation to the Secondary Lender.

D. Sharing of Risk and Rewards: CFPL may collaborate for co-lending with NBFCs that are registered with the RBI. The arrangement should call for a shared contribution of credit from both lenders at the facility level. In accordance with their mutually agreed-upon agreement, CFPL and the NBFC should also share risks and rewards to ensure that their respective business objectives are appropriately aligned. A minimum of 20% of the credit risk by direct exposure must be recorded on the books of the NBFC till maturity, and the remaining 80% must be recorded on the books of the CFPL. The NBFC must guarantee to CFPL that its participation to the loan amount is not financed through borrowing from the co-lending CFPL or any other member of the partner CFPL's group of companies.

Classification of Co-Lending loans: CFPL may claim priority sector status in respect of its share of credit while engaging in the co-lending arrangement in case of priority sector loans.

E. Commercials:

- Interest rate- The ultimate borrower may be charged an interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both lenders.
- Fees and Expense sharing for other activities- Appropriation between the Co-lenders may be mutually decided basis mutual agreement between both lenders.
- AUM / Servicing Fees / Any other commercial terms– Would be agreed mutually between both lenders.

F. Know Your Customer (KYC):

The both lenders shall 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.

KYC due diligence shall be conducted by the secondary lender in accordance with the terms of the agreement while complying with the afore-mentioned regulatory requirements.

G. Loan Sanction/Disbursement to the Customer:

The Secondary Lender shall recommend to the Primary Lender proposals as found relevant for joint lending. Each Lender will independently assess the risks and requirements of the applicant borrowers. The loan agreement would be tripartite in nature, wherein, both the lenders shall beparties as lenders to the loan agreement executed with the customer. Disbursement to the Customer shall be in accordance with the terms of the Master Agreement executed with respective co-lending partner

H. Customer Service: The secondary lender (NBFC) shall be the single point of interface for the customers and shall enter into a loan agreement with borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of secondary lender and CFPL.

All 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 CFPL and Secondary Lender therein shall be applicable mutatis mutandis in respect of loans given under arrangement.

I. Grievance Redressal: It shall be the responsibility of the Secondary Lender (NBFC) to explain the end to end process & procedure to borrowers regarding 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. CFPL will follow the grievance redressal policy as per RBI norms.

J. Escrow Account: CFPL and the Secondary Lender (NBFC) shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements and repayments) between CFPL and Secondary Lender (NBFC) related to Co Lending shall be routed through two separate Escrow accounts for disbursements and repayments respectively, in order to avoid inter-mingling of funds without holding the funds for float purposes. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders. The Secondary Lender (NBFC) should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with CFPL.

K. Repayment & Collection – All the repayments (including prepayment and late payment) shall be routed through Repayment Escrow account and the same will be

settled on mutually agreed terms. Any charges/ fees received on account of late payment or prepayment will be divided in the proportion mentioned in Master Agreement.

L. **Monitoring & Recovery:** Both lenders shall create the framework for day to day monitoring and recovery of the loan, as mutually agreed upon. Secondary Lender (NBFC) will be responsible for recovery of loans.

M. **Security and Charge Creation:** The Secondary Lender (NBFC) shall arrange for creation of security and Pari passu charge shall be created over security/ies. In the event of a default by the borrower, each party shall be entitled to enforce its rights and remedies against the borrower, and each party shall be entitled to its proportionate share of any recoveries or proceeds from the security or collateral.

N. **Provisioning / Reporting Requirement:** Each of the lenders shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each of the lenders shall carry out its respective reporting requirements including reporting to Credit Information Companies, under respectively applicable law and regulations for their portion of lending.

O. **Assignment / Change in Loan Limits:** Any assignment of loans by the service provider (NBFC) to a third party can be done only with the consent of CFPL. Further, any change in loan limit of the co-lending facility can be done only with the mutual consent of both the lenders.

P. **Business Continuity plan:** Both CFPL and the Secondary Lender (NBFC) shall implement a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co Lenders.