IDFC FIRST Bank Limited

Policy on Co – Lending Model	
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Co-lending policy for PSL & NPSL

1. Introduction

IDFC First Bank (hereafter referred to as "the Bank"), in compliance with RBI 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) is adopting the following policy on Co-lending of loans.

Co-Lending Model (CLM) involves sharing of risks and rewards between the Bank and the NBFC (including HFCs) for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the Bank and the NBFC.

This is an attractive opportunity for Bank to originate retail and MSME portfolios consistent with their risk appetite and will ensure a sustainable growth of the priority sector and non-priority sector advances.

The policy is approved by the Board of Directors and shall be reviewed by the Risk Committee of the Board at least annually.

This policy is an extension to the overall Credit Policy of the Bank.

2. Eligibility

- Lending to be made to priority sector defined by RBI in compliance with RBI circular no. RBI/2020-21/63 FIDD.CO.Plan. BC.No.8/04.09.01/2020-21 dated November 05, 2020
- Lending to Non-priority sector as per the Banks internal Credit Policy.
- Bank is not allowed to enter into co-lending arrangement with an NBFC belonging to the promoter group.

3. Norms of Agreement

- A Master Agreement shall be entered into between Bank and the NBFCs (including HFCs) 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 Co-Lender, 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.

4. Loan Sharing

- The Bank will take its share of the individual loans on a back-to-back basis in their books.
- The Co-lender shall retain a minimum of 20 percent share of the individual loans on its books; the percentage of retention by the Co-lender in all cases shall be guided by the terms of agreement between the Bank and its Co-lender.
- The Bank can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.
- The Bank can exercise its discretion regarding taking into its books the loans originated by Co-lender 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 internal guidelines for direct assignment and portfolio acquisition policy.

5. Credit Norms

In accordance with Bank's & Co-lenders credit norms, once a client/borrower has agreed to commercial terms, evaluation is done based on various parameters.

6. Approval Norms

The Co-lending institution shall not outsource credit decisioning process. Further, it shall ensure to seek approval from the 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 the Co-lender. The Bank shall be the final sanctioning authority under this arrangement.

7. Charging Interest rates

- The Bank and the partnering co-lender 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 the Bank & Co-lender in proportion to their share of credit and interest.
- The Co-lender should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Bank.

8. Fund Management

The Bank and the co-lending institution 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.

9. Handling customer issues

- The Co-lending institution 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 the co-lender and bank.
- 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 co-lender therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
- With regard to grievance redressed, suitable arrangement must be put in place by the co-lender to resolve any complaint registered by a borrower with the co-lender 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.

10. Provisioning and Bureau Reporting

- In event of default, provisions shall be provided in books for the mentioned loan (Banks share) as per Bank’s board approved policy. Any additional provisions shall be made on case-to-case basis.
- Both the parties shall adhere to the asset classification, provisioning requirement and reporting to Credit Information Companies for their share of the loan account. However, NBFC will be reporting the status of 100% of the loan to Credit Information Companies wherever Direct Assignment route is undertaken.

11. Operational Aspects

- Record Keeping will be done as agreed with the respective NBFC and documented in the agreement. The custodian shall maintain such records, which are required to comply with Applicable Laws in connection with this Agreement. The custodian shall retain records for a period as specified under regulatory guidelines, after the termination of the Agreement. The custodian shall furnish such records, as may be requested by the other entity within the specified number of days as agreed.
- The board approved policy for entering into CLM to be hosted on the websites of the Bank and the co-lending institution.
- The framework for monitoring and recovery of the loan, shall be guided as per mutually agreed terms between the Bank and the Co-lender.

- The Bank and the co-lender shall arrange for creation of security and charge as per mutually agreeable terms.

- 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 by Co-lender to a third party can be done only with the consent of the bank.
- Both the bank and the Co-lender 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 the co-lenders.
- The Master Agreement may contain necessary clauses on representations and warranties which the originating Co-lender shall be liable for in respect of the share of the loans taken into its books by the bank.