POLICY for

Co-Lending by Bank and NBFCs/HFCs

Bandhan Bank Limited

Head Office, Kolkata

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Table of Contents

POLICY ON CO-LENDING BY BANKS AND NBFCs/HFCs

1. Introduction

The Reserve Bank of India (RBI) in its third Bi-Monthly Monetary Policy Statement 2018-19 dated August 1, 2018, announced that all scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) may co-originate loans with Non-Banking Financial Companies - Non-Deposit taking- Systemically Important (NBFC-ND-SIs), for the creation of eligible priority sector assets. Later vide its circular RBI/ 2018- 19/49FIDD.CO.Plan.BC.08/ 04.09.01/2018-19 dated September 21, 2018 RBI has laid down detailed guidelines in this regard. Further to which RBI has issued a circular vide RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 05, 2020 to provide greater operational flexibility to the lending institutions while requiring to conform to the regulatory guidelines. By way of this, the arrangement should entail joint contribution of credit at the facility level, by both lenders. It should also involve sharing of risks and rewards between the bank and the NBFC/HFCs for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC / HFCs.

The provisions of Co-Lending Model permit the bank to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The bank will take its share of the individual loans on a back-to-back basis in its books. However, the concerned NBFC/HFC shall be required to retain a minimum of 20 per cent share of the individual loans on its books.

RBI has asked Banks to formulate a Board approved policy for entering into a co- lending agreement with the NBFCs/HFCs and place the approved policies on their websites. The loans under the co-lending agreement shall be subjected to periodic verification by bank's internal auditors to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements. The policy will be governed by all subsequent regulations / clarifications released by RBI.

2. Objective of the Co-Lending policy

- In its endeavor to reach eligible clients for lending, Bandhan Bank Ltd. ("Bank") would like to leverage the co- Lending model to generate Priority/Non-Priority Sector assets. Further, Bank is looking to diversify its book by addition of Co-lending to the product bouquet. Co-lending partnership will be done with NBFC/HFC who have demonstrated track record of quality origination across product/s, customer segment/s, location/s complying to Bank standards. The Bank shall enter into co-- Lending arrangement for priority sector assets with such NBFCs/HFCs which conform to the minimum parameters mentioned in this policy.

- The NBFC/HFC shall source the proposals conforming to the pre- determined, mutually agreed upon criterion and recommend to the Bank for sanctioning
- The Bank shall independently assess the risks and requirements of the applicant borrowers
- Minimum 20% of the credit risk by way of direct exposure shall be on the NBFC's/HFC's books till maturity and the balance shall be on the Bank's books
- The Bank and the NBFC/HFC shall price their part of the exposure and a single blended fixed rate/weighted average interest rate shall be charged to the borrower.
- A common escrow account shall be opened for loan disbursal and repayment.
- The Bank and the NBFC/HFC shall create security and charge as per respective portion of the loan.
- Day to day monitoring and recovery of the loan shall be done as per respective portion of the loan.

3. Scope of the Co-Lending policy

The Co- Lending Policy shall apply to all co- Lending transactions of the Bank undertaken with NBFC/HFC. The policy shall be reviewed periodically for scope and content so that it remains aligned to the changes in the regulatory requirements, business conditions and the Bank's own business strategy & risk appetite. Further, this policy is not applicable for any Cash Credit & Overdraft Facility extended to borrowers.

The master agreement entered with the NBFCs/HFCs for CLM shall provide details of whether the bank to mandatorily take the share of the individual loans as originated by the NBFC/HFC in its books or retain the discretion to reject certain loans subject to its due diligence.

a. If the 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 NBFC/HFC, 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 bank and NBFC/HFC shall put in place suitable mechanisms for ex-ante due diligence by the bank as the credit sanction process cannot be outsourced under the extant guidelines.

b. The bank shall also 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 its option, to rely on customer due diligence done by a third party, subject to specified conditions as per regulation.

c. However, if the bank exercises its discretion regarding taking into its books the loans originated by NBFC/HFC as per the agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the bank while taking over 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/2011-12/540 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.

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

The Bank shall not enter into co-lending arrangement with an NBFC/HFC belonging to its promoter Group.

4. Identification of NBFC/HFC for Co-Lending

Bandhan Bank Ltd. shall enter into co-Lending arrangement with such NBFC/HFC which conform, to the following parameters:

- External rating/grading for MFIs/NBFCs/HFCs should be guided by minimum sourcing criteria stipulated for respective segment in credit risk management policy. In case of existing clients of the bank, the NBFC/HFC with a minimum rating of upto BBB can be considered without separate approval for on-boarding, subject to the following criteria being met:

    - ✓ Minimum vintage of operations shall be 3 years but with the approval of sanction authority it shall be 2 years.
    - ✓ Originator shall have a minimum AUM of Rs. 100 Cr.
    - ✓ Bank shall not enter into co-lending with entities registered as Society/ Trust.

- Originator should be in compliance to the RBI guidelines issued by the regulator from time to time.
- In case of existing borrowers of the bank, Corporate Banking Operations (CBO) team should confirm that the account operations are satisfactory in terms of our Bank's repayment track record, covenant compliance etc.
- Originator should have geographical presence in minimum 2 states.

- Minimum age of Operations shall be 2 years.
- Minimum Capital adequacy ratio (CAR) should be 15% for NBFC-HFC and 17% for other NBFC/HFC. Further, it should be in line with Risk appetite of the Bank.
- Any deviation in sourcing criteria with respect to the policy of the Bank for Co-lending arrangement, the deviation approval will be sought from sanctioning authority. Co-lending partnership with existing NBFC/HFC client shall be handled and housed under the NBFC lending department or the co-lending partnership shall be handled by respective asset department of the Bank. Since the particular asset department has expertise and the understanding on the behavior of performance of assets on day to day basis.

5. Internal Approval on NBFC/HFC for Co- Lending

Steps in taking internal approval	**Responsibilities**
Visit to NBFC/HFC	Business Vertical
Preparation of In-Principle term sheet	Business Vertical
Preparation of the internal sanction document	Business Vertical
Review of the internal sanction document	Risk Management#
Circulation of the internal sanction document	Business Vertical
Approval for Sanction	Committee for approving Co-Lending business partner (NBFC/HFC) should be comprising of MD & CEO, Head-Wholesale Banking, Head-Commercial Banking and Chief Risk Officer (CRO). The discretionary power for sanctioning any individual proposal for co-lending with a partner need to be accorded by relevant sanctioning authority as per delegation of power mentioned in Credit Approval Authorization Matrix (CAAM) Policy. The respective Business Heads pertaining to Asset classes may be invited for Co Lending partnership discussion on case to case basis.

#The role of Risk Management is limited to the proposal to be submitted to the sanctioning authority.

6. Agreement with NBFC/HFC

In accordance with the RBI guidelines, the Bank shall enter into an agreement with identified NBFC/HFC for co-Lending of PSL (Priority Sector Lending) and Non-PSL assets. The agreement shall have detailed description of roles and responsibilities of both the parties along with terms and conditions for entering into the co- Lending model. The agreement shall have details of:

a. Non-Disclosure Related Clauses
b. Parameters basis which NBFC/HFC shall identify and recommend cases for co-Lending
c. Terms of sanction by the Bank
d. Mode of disbursement and repayment
e. Framework for day to day monitoring and recovery of the loan
f. Arrangement for creation of security and charge
g. Terms & conditions for assignment of loans by the Bank or NBFC/HFC
h. Credit sanction will be done independently by both the entities
i. Others as deemed necessary

While engaging in co- Lending arrangements, inter-alia, the bank is required to adhere to extant guidelines on outsourcing of financial services. Accordingly, though the NBFC/HFC is expected to source loans as per the mutually agreed parameters between the bank and the NBFC/HFC, bank shall not outsource its part of credit sanction component to the NBFC/HFC.

7. Loan Origination under the Co- Lending Model

The NBFC/HFC shall source the loan conforming to the pre-agreed criteria and recommend to the Bank for joint lending. The Bank shall independently assess the risks and requirement of the customer. Basis the risk appetite of the Bank, the Bank shall decide on its share of the direct exposure on the recommended customer. The Bank shall not outsource its part of credit sanction component to the NBFC/HFC. The parameters would broadly cover below aspects:

a. Constitution of Borrower: The constitution of the borrowers can be Individuals/proprietorship concerns, Partnership firms, Private Limited Companies, Public Ltd Companies and HUFs. In cases of loan to HUF, loan must be in the name of HUF and Karta & all coparceners will be co- borrowers in their individual capacity. In case of minor member – natural guardian shall sign the loan documents. Consent from all coparceners allowing Karta to act on their behalf and Declaration that the loan amount will be utilized for the benefit of HUF only is also to be obtained.

b. Age of the borrower (Where applicant/ Co- applicants are individual): Minimum age at loan sanction should be at least 18 Yrs and Maximum age at loan maturity should not exceed 75 yrs. The owner of the property proposed as security can be considered as applicant even if his age is beyond 75 Yrs at loan maturity, provided his income is not considered for loan repayment and all his/her legal heirs to be co applicants OR Registered WILL in favor of co-applicants is executed by the property owner. In case any of the legal heirs are not co-applicants, a duly Notarized No Objection Certificate from them is required.

c. Ownership of Property: Owner of the property should be on the loan as one of the borrower. If property owner is Private Limited Company, Registrar of Companies search is mandatory.

d. Age of the property proposed as security: Age of property at the time of application of loan should not exceed 35 years. The residual Age of property (as certified by panel valuer) should be at least 5 years more than the tenor of loan.

e. Valuation of Property: Valuation is to be obtained from only one panel valuer for loan amount up to Rs 100 lacs. For loan amount exceeding Rs 100 lacs, two valuations from different panel valuers are mandatory and lower of the two valuations will be considered for eligibility purpose. For cases with loan amount more than Rs. 25 lacs, the property is to be visited by On-roll staff of NBFC/HFC to ensure that the property visited by the valuer is the same property which is offered as collateral security.

f. Legal Clearance:

- A clear report from Bank’s empaneled advocate or Co-lending partner, subject to regulatory clearance from customer is mandatory for legal clearance.
- For loan amount up to Rs 200 lacs, one legal search along with opinion report shall

be required.

- For loan amount more than Rs 200 lacs, two legal search reports along with opinion from different empaneled lawyers shall be required.
- Legal and Technical reports should be signed by advocate / valuer
- Title search is mandatory in all locations for last 13 years.
- All cases in MUMBAI & PUNE will undergo title search in all Havellis / Zones.
- For loan against plots, title search shall be required up to 50 years
- For loan against land and buildings, title search is required for 13 years.

g. Experience of Borrower: Must be a minimum of 2 yrs.

h. Residence/Office Stability: Minimum 1 year at current residence or current business.

i. Telephone: Telephone number is mandatory.

j. Business Reference: At least two references required to be taken from main suppliers/clients for all cases.

k. Personal Discussion / Tele-discussion: Personal Discussion is mandatory for all cases at applicant's office/residence. Personal Discussion format and authority matrix for conducting Personal Discussion will be approved by NBFC/HFC. The Personal Discussion / Tele-Discussion shall be conducted by the concerned NBFC/HFC.

l. Loan Tenor: The maximum tenor (including moratorium, if an) up to 30 years for housing loans/LAP subject to equivalent tenor of the loan book and 15 years for other loan segments. All the loans will have EMI structure. The first EMI for all loans will start on Month + 1, i.e., case booked on 15th May would be having first EMI date of 1st June.

m. Credit Bureau check: Credit Bureau check will be mandatory for all proposals and will be done by NBFC/HFC. The minimum credit bureau score cut off will be product specific and to be followed as per Bank's existing credit policy for that Product. Score will be applicable for all applicants and co- applicants whose income is considered for loan eligibility.

n. RBI Defaulter/ Willful defaulter List and ECGC Specific Approval List: RBI Defaulter/ Willful defaulter List and ECGC Specific Approval List checked based on the latest circulated lists will be mandatory for all proposals and will be done by the NBFC/HFC

If there is any conflict between parameters defined above and parameters present in Bank's Credit policy or Valuation Policy for a specific asset product, Bank's Credit Policy and Valuation

Policy will supersede

Cost of loan origination/processing/verification/valuation will be borne by NBFC/HFC for which NBFC/HFC may charge processing fee from the borrower. NBFC/HFC will also be paid Management Fee, as mutually agreed, on monthly basis towards servicing, collection, recovery, storage of files, etc.

8. **Sharing of Risk and Rewards under the Co- Lending Model**

Minimum 20% of the credit risk by way of direct exposure shall be on NBFC/HFC's books till maturity and the balance shall be on Bank's books. Collections shall be done by the NBFC/HFC. Risk and Reward will be shared in the proportion of participation. The interest sharing will be commercially agreed between NBFC/HFC and the bank. While there can be differential interest rate between NBFC/HFC and Bank, the interest rate offered to the end customer should be blended rate. In case of PSL related Co-lending, as per RBI guideline, there cannot be subordination/guarantee of cash flows between partners. Loan contribution ratio can be in the range of 50%-50% to up to 80%-20% (Bank- NBFC/HFC). This will be a function of credit comfort on various parameters with the NBFC/HFC and the sectoral comfort of the Bank.

9. **Interest Rate to the Customer**

The Bank shall price its part of the exposure in a manner found fit as per the risk appetite/assessment of the borrower and the RBI regulations issued from time to time; and the NBFC/HFC shall price its part of the exposure. However, a single blended rate shall be offered to the borrower. The rate can be either fixed or floating, linked to the respective benchmarks of the Bank & NBFC/HFC. Based on the respective interest rates and proportion of risk sharing, a single blended interest rate shall be offered to the ultimate borrower in case of fixed rate loans. In the scenario of floating interest rates, a weighted average of the benchmark interest rates in proportion to the respective loan contribution, would be offered. The interest rate charged by the Bank should be in accordance with its internal guidelines and the final rate to the borrower will be the weighted average of loan contribution ratio between Bank and NBFC/HFC. Loan contribution ratio can be in the range of 50%-50% and can go up to 80%-20% (Bank – NBFC/HFC). The interest rate charged by the bank for its portion of credit, shall be subject to applicable directions on interest rates on advances. Further, the NBFC-MFIs are also required to abide by the pricing of credit and other applicable guidelines for loans covered under "Qualifying Assets" regarding their contribution towards the co-lent loan. It is envisaged that the benefit of low cost funds from banks and lower cost of operations of NBFC/HFC would be passed on to the ultimate beneficiary through the blended rate/ weighted average rate. In this regard, bank 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.

10. Know Your Customer (KYC) Requirements

- The Reserve Bank of India's Know Your Customer (KYC) Directions, 2016 and updated from time to time shall apply to every Regulated Entity (RE) including NBFC/HFC.
- KYC done by NBFC/HFC can be accepted as it is as per RBI guidelines subject to the conditions mentioned under Chapter 5, Para 14 of RBI Master Direction on KYC which reads as under:
  - ✓ For the purpose of verifying the identity of customers at the time of commencement of an account-based relationship, REs, shall at their option, rely on customer due diligence done by a third party, subject to the following conditions:
    a. Records or the information of the customer due diligence carried out by the third party is obtained within two days from the third party or from the Central KYC Records Registry.
    b. Adequate steps are taken by REs to satisfy themselves that copies of identification data and other relevant documentation relating to the customer due diligence requirements shall be made available from the third party upon request without delay.
    c. The third party is regulated, supervised or monitored for, and has measures in place for, compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the PML Act.
    d. The third party shall not be based in a country or jurisdiction assessed as high risk.
    e. The ultimate responsibility for customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the RE.

- The Bank as a Regulated Entity (RE) can rely on the KYC done by NBFC/HFC but will have the ultimate responsibility for KYC. While, as a one-time exercise, a suitable confirmation and indemnity, will be taken from the NBFC/HFC that they have exercised due diligence while verifying KYC of the customer. However, the Bank shall ensure it gets the copies of

KYC/OSV from NBFC/HFC as a record on an account level. While NBFC/HFC will support in doing the OSV, the ultimate responsibility to ensure KYC is done as per RBI guidelines lies with the Bank. KYC documents to be maintained by the bank as per regulatory guidelines. Further, the Regulated Entities (REs), at their option, to rely on customer due diligence done by a third party, subject to specified conditions as stipulated in RBI guideline.

11. Loan Sanction under the Co-Lending Model

In accordance with the RBI guidelines, the NBFC/HFC 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 NBFCs/HFCs and banks. All the documents as per the Bank's internal guidelines for respective PSL loans/ borrowers shall be collected by NBFC/HFC. Maintenance of original application and loan documents will be with NBFC/HFC. A copy of these documents to be kept at Bank's end and originals will have to be reproduced by NBFC/HFC to the Bank as and when Bank requires. However, the bank can take its share of the individual loans originated by the NBFCs/HFCs in its books as per the terms of the agreement, or can retain the discretion to reject certain loans after their due diligence prior to taking in their books.

12. Security and Charge Creation

The NBFC/HFC shall arrange for creation of security and charge, with the Bank as per the existing process of charge creation on the Bank. Maintenance of original application and loan documents will be with NBFC/HFC. Bank will keep a copy of the entire set of documents for records and RBI inspection purposes.

13. Loan Servicing under the Co- Lending Model

The Bank and the NBFC/HFC shall open an escrow type common account with Bandhan Bank only for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrower, without holding the funds for usage of float. Regarding loan balances, the NBFC/HFC and Bank both shall maintain individual borrower's accounts and should be able to generate and share a single unified statement to the borrower, through appropriate sharing of required information within the Bank and NBFC/HFC. Also, all the details of the arrangement shall be disclosed to the customers by the participating NBFC/HFC upfront and their explicit consent shall be taken. The repayment/recovery of interest shall be shared between the Bank and the NBFC/HFC in proportion to their share of credit and interest. The operating expenses of NBFC/HFC for sourcing, follow up and recoveries of the Bank's share of the co-lent loans will be negotiated with the NBFC/HFC depending upon the type of the loan. NBFC/HFC will act as Collection and servicing agent for the bank and will do all the necessary activities for the bank.

14. Monitoring and Recovery

The Bank shall do its part in the day to day monitoring and recovery of the loan. Bank will ensure through post-sanction visits conducted by the NBFC/HFC and other suitable checks that end use of funds is for the purpose for which the loan is sanctioned. The onus of monitoring and recovery will lie with the NBFC/HFC. Due date for recovery of all EMIs will be reckoned from the actual date of disbursement of the loan and the same will be deposited in the borrower's loan account on T+1 basis. NBFC/HFC will submit a certificate to the Bank for having verified end use of loan for every loan disbursed. NBFC/HFC will act as Collection and servicing agent for the bank and will do all the necessary activities for the bank and shall provide service for collections, repayments, prepayments, issuance of NOCs, and all other servicing and query resolutions. For issuing No-Objection Certificate (NOC) to customers, the NBFC/HFC shall issue NOC at account level but it should obtain NOC from the bank for its share first. A consolidated statement of account would be provided by NBFC/HFC to the customer at the end of every financial year and also as and when requested for by the customer. NBFC/HFC shall provide MIS and monthly reports on customer payments, overdue accounts and such other customized report as required by the bank. NBFC/HFC shall remit Bank portion of the collections made on an agreed date of the subsequent month to the bank. NPA Provisioning shall be as per the Bank's existing NPA Provisioning policy. In case of any repayment of recovery (partial or full) for a particular loan account, the amount so received shall be divided between the Bank and the NBFC/HFC in the proportion of the co-lending ratio. Similarly, the Credit Loss if any will be borne by Bank and NBFC/HFC for their respective shares. Provision of SARFAESI Act is applicable to Bank and NBFC/HFC as applicable; SARFAESI would therefore continue to be available to Bank and NBFC/HFC for each loan under the structure. NBFC/HFC will assist the Bank for its action under SARFAESI Act.

15. Provisioning/ Reporting of the Loans

The Bank shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines applicable. The Bank shall follow its reporting requirements including reporting to Credit Information Companies, under applicable law and regulations for the Bank's portion of lending. NBFC/HFC may assist the Bank for this reporting requirement by providing appropriate MIS and tech support however, the ultimate responsibility for this reporting lies with the Bank.

16. Assignment/Change in Loan Limits

The Bank or the NBFC/HFC shall assign its part of the loan with mutual consent. Further, either party shall change the loan limit of the co-lent facility with mutual consent.

17. Grievance Redressal Mechanism

As per the RBI guidelines, the NBFC/HFC shall explain to end borrower regarding the difference between products offered through the co- Lending model as compared to its own products. The NBFC/HFC shall be primarily responsible and will be primary contact point for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with the Bank shall also be shared with the NBFC/HFC and the Bank shall instruct the NBFC/HFC to share the same. 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 NBFC/HFC.

18. Business Continuity Plan

Both the Bank and the NBFC/HFC shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co- Lending agreement.

19. **Audit & Verification of the Loans**

The loans under the co- Lending agreement shall be subjected to periodic verification by Bank's internal auditors to ensure adherence to its internal guidelines, terms of the agreement and extant regulatory requirements. The Bank reserves the right to verify KYC and NBFC/HFC books of accounts by engaging the services of Internal Audit Department or

External Auditors (Chartered Accountants).

20. Roles and Responsibilities for the Bank

Post approval received as mentioned in Point No. 5 above, following are the roles and responsibilities for the Bank: -

Role	**Responsibilities**
Vetting of legal Documents	Business Vertical, Corporate Banking Operation and Legal
Execution of legal Documents	Business Vertical and Corporate Banking Operation
Transaction Documents Creation post sanction	Corporate Banking Operation
Opening of Escrow Account	Business Vertical with help of Local Retail Branch.
Disbursement in Escrow Account	Business Vertical / Corporate Banking Operation
Monitoring, Review and Renewal	Business Vertical / Risk Management / Corporate Banking Operation
Reconciliation Activities post disbursement	Business Vertical /Corporate Banking Operation
Compliance with KYC and due diligence Standards	Business Vertical with help of Local Retail Branch.

21. Roles and Responsibilities for NBFC/HFC.

I. NBFC/HFC will originate the loans through its branches and other retail outlets through a standardized loan application form developed in consultation with the Bank. The Bank would decide and inform the NBFC/HFC on its Credit Policy for the Programme.

II. NBFC/HFC will submit to the Bank only such proposals that meet the Credit policy parameters. This will facilitate easy movement of files and least inconvenience to customers because of rejections at Bank's end at a later stage.

III. NBFC/HFC will collect KYC documents from the end borrowers. The Bank will need to ensure that the KYC is in line with the regulations

IV. Bank will do the Credit assessment accordingly by checking if the credit parameters are properly assessed and also will do internal de-dupes as necessary. Bank will approve/reject the proposal at its discretion. (Dedupe can be done by NBFC/HFC through API set up with the Bank provided Bank has appropriate technology implemented in this regard. Till then, Bank will continue to check Dedupe at its end itself.)

V. The NBFC/HFC can issue a sanction letter on behalf of NBFC/HFC and the Bank. The sanction letter would also state that NBFC/HFC is the collection and servicing agent. The sanction letter would have a customer service call centre for this partnership and will be managed by NBFC/HFC in its capacity as collection and servicing agent.

VI. Post the issuance of the sanction letter, NBFC/HFC will complete pre disbursement formalities and documentation formalities

VII. Once the formalities are completed, NBFC/HFC will share the documents with the bank for its approval. Bank will check the document to its satisfaction

VIII. Bank and NBFC/HFC will disburse their respective share of participation amount into the escrow account. From the escrow, the fund will get released to the end client. Bank and NBFC/HFC will book the loan account in their LMS to the extent of their participation in the contract.

IX. NBFC/HFC will provide account level data in the format of the Bank for direct uploading to Bank's CBS System for maintaining individual accounts.

X. NBFC/HFC will act as collection and servicing agent for Bank and shall provide service for collections, repayments, prepayments, issuance of NOCs, and all other servicing and query resolutions.

XI. A consolidated statement of account would be provided by NBFC/HFC to the customer at the end of every financial year and also as and when requested for by the customer at call centre or the physical branches.

XII. NBFC/HFC shall provide MIS and monthly reports on customer payments, overdue accounts and such other customised report as required by the bank.

XIII. NBFC/HFC shall remit their portion of the collections made on 1st of the subsequent month to the bank.

XIV. NPA Provisioning shall be as per the Bank's policy. The Credit Loss if any will be borne by Bank and NBFC/HFC for its respective share.

XV. Provision of SARFAESI Act 2002 is applicable to Bank and NBFC/HFC; SARFAESI would therefore continue to be available to Bank and NBFC/HFC for each loan under the structure. NBFC/HFC will assist the Bank for its action under SARFAESI.

22. Annexure

Indicative Illustration for calculation of Blended/ Weighted Average Interest Rate

Scenario 1: Fixed interest rates

Customers are offered fixed interest rate throughout life of loan.

	Example 1		Example 2	
Blended interest rate calculations	**Bank**	**NBFC/HFC**	**Bank**	**NBFC/HFC**
Benchmark Interest Rate	8%	9%	8%	9%
Spread	2%	3%	2%	3%
Interest rate to consumer	10% (A)	12% (B)	10% (A)	12% (B)
Loan contribution ratio	80%(C)	20%(D)	70%(C)	30%(D)
Blended interest rate (A*C)+(B*D)= E	10.40%		10.60%	

Scenario 2: Floating interest rates

	Example 1		Example 2	
Change in Weighted Average interest rate	**Bank**	**NBFC/HFC**	**Bank**	**NBFC/HFC**
Benchmark Interest Rate	8% (A)	9% (B)	8% (A)	9% (B)
Loan contribution ratio	80% (C)	20% (D)	70% (C)	30% (D)
Weighted Average Benchmark Interest Rate (X = A*C + B*D)	8.20%			8.30%
Spread	2% (E)	3% (F)	2% (E)	3% (F)
Weighted Average Spread (Y =	2.20%			2.30%

E*C+F*D)				
Weighted Average interest rate offered to customer at the time of disbursement (X + Y)	10.40%			10.60%
Change in Benchmark Rate	0% (F)	+1% (G)	0% (F)	+1% (G)
Revised Weighted Average Benchmark Interest Rate	8.40			8.60
X’ = [(A+F)*C + (B+G)*D]				
New Weighted Interest Rate (X’ + Y)	10.60%			10.90%

23. Other Charges

Any other applicable charges, will be decided mutually between co-originating lenders and communicated to the customer.

Note: The above illustration is only indicative in nature and is not mandatory. However, irrespective of the methodology employed by the lenders to arrive at the blended interest rate, it is envisaged that the benefit of low cost funds from banks and lower cost of operations of NBFC/HFC is passed on to the ultimate beneficiary.