



POLICY FOR CO-LENDING OF LOANS

OF

PNB HOUSING FINANCE LIMITED

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Summary of Version History

Policy approved by	Board of Directors
Policy drafted by	Chief Sales Officer
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Policy for Co-Lending of Loans

I. Introduction

Company has framed co-lending Loan policy by taking inference from RBI circular no. RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 ("circular") dated November 05, 2020 (in supersession of the earlier circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018).

RBI vide this circular has given operational flexibility to the lending institutions by revising its existing scheme as "Co-Lending Model" ("CLM") to improve flow of credit to the unserved and underserved sectors of the economy and make funds available to the ultimate beneficiary at an affordable cost giving better reach to the NBFCs. This arrangement was made mainly to entail joint contribution of credit at the facility level by both the lenders as also sharing risks and rewards

II. Eligibility: The policy is applicable to following segments;

Applicable to all Scheduled Commercial Banks (excluding Regional Rural Banks, Urban Co-operative Bank, Small Finance Banks and Local Area banks) and all registered NBFCs (including HFCs).

Before entering into the Master Agreement with participating Banks/NBFCs/HFCs, PNB Housing will discuss to agree on loan products, which are eligible under the respective CLM / Master Agreement.

The agreement shall define the clear role of the partners –

1. **Senior Partner** – Maximum 80% of the credit risk by way of direct exposure shall be on senior partner's books till maturity and the balance shall be on the Junior partner's books.

2. **Junior Partner**- Credit risk by way of direct exposure subject to minimum of 20%.

III. Master Agreement:

- i. The CLM Policy shall apply to all co-lending transactions of PNB Housing undertaken with registered FI's / NBFCs (including HFCs).
- ii. The Master Agreement between the two partner institutions will include, terms and conditions, the criteria for selection of partner institutions, the specific product lines and areas of operation, provisions related to segregation of responsibilities, customer interface, KYC and customer protection.
- iii. Senior Partner will either mandatorily take its share of the individual loans originated by junior partner in its books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking them in its books.
- iv. The Master Agreement will provide on representations and warranties which junior partner shall be liable in respect of the share of the loans taken into the books by senior partner.
- v. The Master Agreement shall be in compliance with RBI circular dated November 05, 2020 on Co-lending. The Master Agreement will incorporate commercial elements such as, weighted interest rates, sharing ratio of disbursement and processing fees, crossing rights and revenue sharing details, post disbursement servicing arrangement and fees applicable thereto.

IV. Loan Funding Ratio:

- i. Senior Partner will take their share of the individual loans on a back-to-back basis in its books. Participation between the co-lending partner institution and PNB Housing in their capacity as lenders, shall be conducted at a mutually agreed ratio of the credit risk by way of direct exposure till maturity.

V. Steps in co-lending arrangement:

- i. Junior partner will source and identify eligible customers as prospective borrowers as per credit norms mutually agreed by the senior partner. It will undertake field investigation, personal discussion, original seen and verification of know your customer ("KYC") document, legal & technical evaluation of the underlying asset, title search etc. It will collect relevant documents & conduct a thorough due diligence of the borrower(s) to

evaluate the credit worthiness. Evaluation of borrowers will be done on past history of repayment, credit checks viz. bureau, internal dedupe, and fraud check, assessment of income, business vintage, stability etc.

- ii. **A. Co-lending Model:** Senior Partner may entail a prior, irrevocable commitment to the junior partner regarding taking into its books its share of the individual loans as may be originated by the junior partner. The arrangement shall comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Senior Partner as issued by RBI from time to time. Both co-lenders shall put in place suitable mechanisms for ex-ante due diligence by Senior Partner as the credit sanction process cannot be outsourced under the extant guidelines.

B. Co-lending Akin to DA / Back-to-Back Co-Lending: If Senior Partner chooses to exercise its discretion regarding taking into its books the loans originated by junior partner as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, Senior Partner 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//2012-13/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012, as amended from time to time, with the exception of Minimum Holding Period (MHP) as applicable to direct assignment transactions, which shall not be applicable to CLM. The MHP exemption shall be available only in cases where the prior agreement between the co-lender contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines and board approved policy.

VI. Interest Rate

- i. PNB Housing 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/FI shall price its part of the exposure. However, a single blended rate (all-inclusive interest rate) shall be offered to the customer as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.
- ii. The rate can be linked to the respective benchmarks of both partners. This arrangement effecting the interest rate of the borrower shall be disclosed to the borrower upfront in the terms and conditions.
- iii. Upon repayment, the interest income will be shared with PNB Housing and co-lending partner in proportion to the agreed ratio by both the financial institutions.
- iv. In the scenario of the change in benchmark rate of either partner, the same shall be passed on to the customer in proportion to the agreed upon ratio along with the communication to the customer.

VII. Other Operational Aspects

- i. Both partners shall maintain individual borrower's account for their respective exposures. Transactions (disbursements/ repayments) between both the partners relating to CLM will be routed through an escrow account maintained with the third- party bank, to avoid inter-mingling of funds. The Master Agreement will specify the manner of appropriation between the co-lenders. The co-lenders will establish a framework for monitoring and recovery of the loan.
- ii. Both the partners will create security and charge as per mutually agreeable terms.
- iii. The framework for monitoring and recovery of the loan, will be as per mutually agreed terms.
- iv. PNB Housing will adhere to the asset classification and provisioning requirement, as per the regulatory guidelines applicable including reporting to Credit Information Companies for its share of the loan account.
- v. In event of default, provisions shall be provided in books for its share of loan. Any additional provisions will be made on case-to-case basis.
- vi. The loans under the CLM will be included in the scope of internal/statutory audit to ensure adherence to internal guidelines, terms of the agreement and extant regulatory requirements.
- vii. Any assignment of a loan by co-lending partner to a third party can be done only with the consent of PNB Housing-
- viii. Both Partners will ensure uninterrupted service to its borrowers, till repayment of the loans even after termination of co-lending arrangement.
- ix. PNB Housing will place the Board approved policies for entering into the CLM on its website.

- x. Exit Clause: In case either Banks/NBFC/HFC wants to exit the agreement (only for new business), 30 days prior notice should be served to the other party.

VIII. Aspects relating to Customer Service:

- i. Junior Partner will be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which will contain the features of the arrangement and the roles and responsibilities of both the partners-
- ii. The details of the arrangement will be disclosed to the customers upfront and their explicit consent will be taken.
- iii. The extant guidelines relating to customer service and fair practices code and the obligations will be applicable in respect of loans given under the arrangement.
- iv. Junior Partner will generate a single unified statement of the customer, with an appropriate information sharing arrangements with the Senior Partner-
- v. Grievance redressal of any complaint registered by a borrower will be done within 30 days by the junior partner. The borrower has the option to escalate with the concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

IX. Approval Authority:

The Managing Director and CEO on the recommendations of Product and Process Approval Committee (PPAC) /Business Head /CFO is authorized to take appropriate decisions and actions as per the approved Policy.
