

**Co-lending Policy V 1.0  
(January 2023)**

## **Contents**

1. INTRODUCTION.....	3
2. OBJECTIVE .....	3
3. SCOPE.....	3
4. TYPE OF CO-LENDING: .....	3
5 PARTNER SELECTION, ONBOARDING AND DOCUMENTATION .....	4
6. ROLES AND RESPONSIBILITIES .....	7
7. CUSTOMER ONBOARDING AND MONITORING .....	8
8. OTHER POINTS .....	9

## 1. INTRODUCTION

Bajaj Housing Finance Limited (hereinafter referred to as ‘BHFL’ or ‘the Company’) is a Public Limited Company incorporated under the Companies Act, 1956. The Purpose of the document is to define Co-lending Policy / Co-lending Model (‘CLM’ ) of the Company. This document should not be seen in isolation but in conjunction with the other policy documents that define the overall working of the Company.

## OMNIBUS CLAUSE

Particulars	Directions
<b>Applicable RBI directions / circulars / notifications</b>	<ul style="list-style-type: none"> <li>a. RBI’s circular on Co-origination of loans by Banks and NBFCs for lending to priority sector rolled out vide its circular RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 as amended from time to time.</li> <li>b. Master Direction-Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021, as amended from time to time.</li> <li>c. Master Direction-Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021, as amended from time to time.</li> <li>d. RBI’s Master Directions – Housing Finance Companies (Reserve Bank) Directions 2021, as amended from time to time.</li> <li>e. Any other circular, notification, directions, regulations, as applicable.</li> <li>f. The contents of this Policy shall stand automatically amended in case of any amendments / revisions issued by the Reserve Bank of India (“RBI”) / National Housing Board (NHB) / Regulator from time to time.</li> </ul>
<b>Approval Authority</b>	Board of Directors

## 2. OBJECTIVE

The objective of the CLM Policy is to lay down the guiding principles of the Company’s co-lending in consonance with the business objectives and in compliance with the statutory and regulatory requirements/guidelines. The guiding principle is to develop a sustainable and profitable model to generate Mortgages and other assets through CLM with special focus on growing Home Loans including Affordable Home Loans.

## 3. SCOPE

### 3.1 Scope of Co-lending

The CLM Policy shall apply to all co-lending transactions of the Company undertaken with registered FI’s / NBFCs (including HFCs) (also referred as Originator).

### 3.2 Products Covered

The company may enter into CLM arrangement of Home Loan, LAP and other products within the framework as defined in Credit approval policy.

## 4. TYPE OF CO-LENDING:

The Company may enter into CLM with partners under the following models:

- A) Co-Lending Model / Parallel co-lending
- B) Co-lending Akin to Direct Assignment (DA)/ Back to Back Co-Lending

Both the models are explained below:

- A) **Co-Lending Model:** Parallel underwriting by both the lenders shall be done. Post credit approval of the loan by both the lenders, the loan shall be disbursed in the books of both the lenders as per the pre-agreed ratio. Sourcing of the loans will be done by the originator basis a pre-defined policy framework which shall be pre agreed with BHFL.

Under CLM framework, the Company may entail a prior, irrevocable commitment to the originator on the part of the Company to take into its books its share of the individual loans as may be originated by the NBFC. The arrangement shall comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by the Company as issued by RBI from time to time. In particular, the Company and NBFC shall put in place suitable mechanisms for ex-ante due diligence by the Company as the credit sanction process cannot be outsourced under the extant guidelines.

- B) **Co-lending Akin to DA / Back to Back Co-Lending:** If the Company chooses to exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, BHFL 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 and Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021, dated September 24, 2021, 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 Company and NBFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines and board approved policy of the Company for direct assignment.

## **5 PARTNER SELECTION, ONBOARDING AND DOCUMENTATION**

### **5.1 Identification of NBFC**

The Company would enter into co-lending arrangement with such NBFCs (including HFCs) which confirm to the following indicative parameters

- Net worth of not less than Rs.10 Crore
- Has sufficient reach geographically in the potential market
- Has sufficient skilled human resources to originate, collect and service assets in the defined product segment
- Has sufficient systems & processes in place for loan management, collection, portfolio management and reporting
- Promoters / Key management profile and lending experience

Risk management department will evaluate the partners targeted for co-lending. In line with the regulatory guidelines, the Company will not enter into co-lending arrangement with an NBFC belonging to the promoter Group.

### **5.2 Internal Approval on NBFC**

The Company, before entering into co-lending arrangement with any NBFC should obtain necessary internal approvals. A detailed Approval Note on the Co-lending arrangement with the NBFC shall be prepared which shall outline the profile of the NBFC, financial products envisaged in the CLM and the operational aspects of the CLM such as sanctioning process, terms & conditions of the arrangement, risk sharing, security aspects, etc.

This Note shall be approved by Committee consist of Chief Credit & Operations, Chief Risk Officer and Chief Financial Officer. Quorum can be reached by any two out of three. In partnerships, where annual committed obligation for a CLM arrangement exceeds 150 Cr, such notes will also require approval from Managing Director.

Further the Company shall specify the Co-lending Policy Framework with each NBFC and should cover various parameters including Min/Max Loan Amount, Tenor, Bureau Norms, LTV/FOIR as applicable etc. and the same shall be jointly approved by Chief Risk Officer (CRO) and Chief Credit & Operations.

Individual borrower/obligor limits under Co-lending shall be approved as per the Board approved Credit delegation matrix.

### 5.3 Concentration risk and limits for selection of originator

During the first 12 months of the relationship, the exposure on the Originator not to exceed the below threshold:

Rating of Originator	Max Exposure (POS)
Rating of B or lower	Not allowed
Unrated	INR 250 Cr
BB / BBB	INR 500 Cr
A, A-, A+	INR 1000 Cr
AA- and above	INR 2000 Cr

Any deviation to the parameters / exposure mentioned above shall be subject to the approval of committee as defined in Section 5.2.

### 5.4 Legal Documentation

The following one or more legal documents shall be executed basis the advice of BHFL's legal counsel for the CLM transactions

- Master agreement
- ESCROW agreement
- Deed of Assignment
- Collection and Service Agreement (if not captured in the Deed of Assignment)
- Service Provider or Collection and Payout Agreement (if applicable)

The above-mentioned list is indicative in nature and approval on all the documents will be taken from internal legal counsel of the Company.

### 5.5 Agreement with NBFC

The Company shall enter into an agreement with the identified NBFC for co-lending and it shall have detailed description of roles and responsibilities of both the parties along with terms and conditions for co-lending.

The agreement entered into by the Company and NBFCs for implementing the CLM may provide the Company to mandatorily take their share of the individual loans as originated by the NBFC in their books or retain the discretion to reject certain loans after its due diligence prior to taking in its books.

Below is the indicative list of parameters which will be part of agreement entered between the Company and NBFC

- Specific product lines and areas of operations
- Ratio of co-lending - Minimum 20% of the credit risk by way of direct exposure shall be on originator's books till maturity and the balance shall be on the Company books.
- Terms of sanction - The transferor will source and underwrite the loans as per Co-lending framework agreed between the Company and the originator
- Arrangement for creation of security and charge
- Mode of disbursement and repayment along with the manner of appropriation Framework of broad Operational process for customer onboarding, servicing, monitoring and recovery
- The Master Agreement may contain necessary clauses on representations and warranties which the originating NBFC shall be liable for in respect of the share of the loans taken into its books by the Company.
- Segregation of responsibilities
- Compliance with applicable regulatory requirements and Fair practices code
- Customer Grievance Redressal Mechanism
- Business continuity plan in the event of termination of co-lending arrangement
- Terms & conditions for assignment of loans by the Company or NBFC
- Others as deemed necessary

### **5.6 Service Provider/ Collection & Payout & Agent**

Originator/NBFC shall act as the Service Provider / Collection & Pay out Agent.

The Service Provider shall provide following services:

- Collect the receivables from the borrower and remit the same to the ESCROW within the stipulate number of Business Days of receipt of the amounts from the borrower.
- Have the custody of documents and Post-Dated Cheques (if applicable) relating to the assigned pool of loan contracts. However, the Company will have a right to demand from the Service provider to surrender the underlying documents and Post-Dated Cheques (PDC) relating to the assigned pool during the tenor of the pool or at the time of changing the Service Provider.
- Not make any distinction in its collection efforts and follow up actions on the underlying receivables from that of its own/ any other portfolio for which it acts as a Service Provider
- Take such action/ proceeding as the Company requires for enforcement of security/collection of receivables.
- Allow the regulator or persons duly authorized by the regulator to access the documents relating to the receivables, record of transactions and any other document given to, stored or possessed by the Collection & Payout Agent within reasonable time of request for such access being made by the regulator or persons duly authorized by the regulator and shall acknowledge the right of the regulator to cause an inspection of its books and accounts by one or more officers or employees or other persons authorized by the regulator in this behalf.
- The services shall be provided on an arm's length basis.

If the originator performs the role of a service provider for the transferee(s) after the loan transfer has occurred, it should ensure that the following conditions are fulfilled:

- A. The nature, purpose, extent of the facility and all required standards performance should be clearly specified in a written agreement
- B. The facility is provided on an arm's length basis prevalent terms and conditions
- C. Payment of any fee or other income arising from the role as a servicing facility provider is not subject to deferral or waiver in a way that would directly or indirectly provide credit enhancement or liquidity facility
- D. The duration of the facility is limited to the earliest of the dates on which
  - The underlying loans are completely amortized
  - All claims connected with the transferee(s) economic interest in the underlying loan are paid out; or
  - the originator's obligations as the servicing facility provider are otherwise terminated.
- E. There should not be any recourse to the originator beyond the fixed contractual obligations.
- F. The Company shall have the clear right to select an alternative party to provide the servicing facility.
- G. The originator shall be under no obligation to remit funds to the transferee(s) until it has received funds generated from the underlying loans.
- H. The originator shall hold in trust, on behalf of the Company, the cash flows arising from the underlying loans and shall avoid co-mingling of these cash flows with its own cash flows.

### **Appointment of Alternate Service Provider**

To safeguard the interest of the Company on occurrence of certain structures/events, it may appoint an entity other than the Originator as the Service Provider / Collection & Pay-out Agent.

An Alternate Service Provider may be appointed at the discretion of the Company, after giving prior notice to the existing service provider. The appointment of Alternate Service provider shall require the approval of committee as defined in Section 5.2.

Appointment of Service Provider/Collection & Payout Agent/Alternate Service Provider shall be in compliance with regulator's guidelines on outsourcing of non-core activities.

## 6. ROLES AND RESPONSIBILITIES

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### 6.1 General Requirements

Loan transfers shall result in transfer of economic interest without being accompanied by any change in underlying terms and conditions of the loan contracts usually. In case there is any modifications to terms and conditions of the loan contract during and after transfer, the same shall be evaluated against the definition of restructuring as defined by regulator.

Lenders regardless of whether they are transferor or otherwise shall not offer credit enhancement or liquidity facilities in any form in the case of loan transfers. A transferor cannot re-acquire a loan exposure either fully or partially that had been transferred by the entity previously except as part of resolution plan in line with regulatory guidelines.

A loan transfer shall result in immediate separation of the transferor from the risks and rewards associated with loans to the extent that economic interest has been transferred. In case of any retained economic interest in the exposure by the transferor the loan transfer agreement shall clearly specify the distribution of principal and interest income from the transferred loan between the transferor and the transferee.

The Company shall have the unfettered right to transfer or otherwise dispose of the loans free of any restraining condition to the extent of economic interest transferred to it. Further, the transferor/ transferee(s) shall not be constrained to obtain consent from the transferee(s)/ transferor, as the case may be, when it comes to resolution or recovery in respect of the beneficial economic interest retained by or transferred to the respective entity.

The transferor shall have no obligation to re-acquire or fund the repayment of the loans or any part of it or substitute loans held by the Company or provide additional loans to the Company at any time except those arising out of breach of warranties or representations made at the time of transfer. The transferor should be able to demonstrate that a notice to this effect has been given to the Company and it has acknowledged the absence of such obligation.

Wherever security interest is held by the transferor in trust with the Company as the beneficiaries, the Company shall ensure that a mutually agreed and binding mechanism for timely invocation of such security interest, if the need arises has been properly documented and put in place

The transfer of loans by the transferor(s) must not contravene the rights of underlying obligors and all necessary consents from the obligors (including from third parties), where necessary as per the respective contracts, should have been obtained.

Any rescheduling, restructuring or re-negotiation of the terms of the underlying agreement/s attempted by permitted transferor(s) after the transfer of assets to the Company shall be in line with regulatory provisions issued by regulator from time to time.

### 6.2 Sharing of Risk and Rewards

Minimum 20% of the credit risk by way of direct exposure shall be on originator's (NBFC including HFC) books till maturity and the balance shall be on the Company books.

#### Applicable only to CLM / Parallel Co lending

### 6.3 Loan Sanction under the co-lending Model

The Originator (NBFC including 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 the NBFC and the Company. All the details of the arrangement shall be disclosed to the customer upfront and their explicit consent shall be taken. All the documents as per the Company internal guidelines for respective PSL / Non PSL Loans, borrowers shall be collected.

### 6.4 Interest Rate to the Customer

The Company 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.

The rate can be linked to the respective benchmarks of the Company & Originator. This arrangement effecting the interest rate of the borrower shall be disclosed to the borrower upfront in the terms and conditions. Other operational aspects like reset etc. shall be addressed in the agreement between the Company and the originator.

### 6.5 Loan Servicing under the co-lending Model

The Company and the NBFC shall maintain each individual borrower's account for their respective exposures. However, all transactions disbursements/repayments between the Company and the NBFC relating to CLM shall be routed through an escrow account, in order to avoid inter-mingling of funds. The NBFC shall generate a single unified statement of the customer, through appropriate information sharing with the Company. The manner of appropriation between the co lenders shall be agreed upon and captured in the Agreement entered into between the co-lending partners.

### 6.6 Grievance Redressal Mechanism

The originator shall explain to the end borrower regarding the difference between products offered through the co-lending model as compared to its own products. The Company while entering into agreement with the originator shall include suitable clauses pertaining to resolving customer complaints by originator in accordance with applicable RBI Guidelines. Originator shall be primarily responsible for providing the required resolution.

### 6.7 Reporting of the Loans

The Company shall follow its reporting requirements including reporting to Credit Information Companies, under applicable law and regulations for its share of loan account.

## 7. CUSTOMER ONBOARDING AND MONITORING

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### 7.1. Customer Onboarding

- Due diligence (both KYC and credit checks) be conducted by BHFL employee. The Company shall also comply with the Master Directions-Know Your Customer (KYC) Direction 2016. issued vide RBI/DBR/2015-16/13 Master Direction DERAML BC No 31/ 14.01.001/ 2015-16 dated February 25, 2016 and updated from time to time, which already permits regulated entities, at their option, to rely on customer due diligence done by a third-party subject to specified conditions.
- Maximum Loan-to-Value for each obligor contract should not be above regulatory LTVs, as applicable.
- Single Obligor-exposure would be agreed with each originator.
- Valuation - Method of valuation of the underlying assets (Primary/Collateral) would be done as per originator specific Co-lending framework agreed with the Company and as per the regulatory framework defined by regulator from time to time.
- **Security and Charge Creation** - The Company shall arrange for creation of security and charge, as mutually agreed upon with the NBFC.
- **Origination of PSL / Non-PSL assets through Co-lending** - The Company can originate both PSL and Non-PSL assets through the Co-lending Model, by adhering to all the guidelines of the Co-lending circular of RBI and the clauses mentioned in this policy.
- There shall not be any overdues in the loan Contracts as of cut-off date (originator confirmation to be taken for the same). Applicable only to the Co-lending Akin to DA Transactions.

### 7.2 IT system for Capture, Storage and Management of Data

- Loan level Cust-ids/ CIF's shall be created in the Companies system basis the available data once the deal is executed. Customer level opening/closing POS, Overdues and DPD will be matched on monthly basis with the payout report received from originator. Interest due to be calculated at deal rate. Customer level NPA working will be done for NPA provisioning. Necessary Accounting entries are passed in respective GL accounts for Standard and NPA cases. ROI maintenance, reset, interest calculation and accounting for floating rate cases are managed at deal / loan level.



**7.3. Risk Management**

- The Company will monitor the performance of the portfolio on a periodic basis (daily/weekly/monthly etc.) and secure servicing reports from the Collection and Service Agent. The details in the Collection and Service Agent report would come from the official mail of the Collection and Service Agent or through API's.
- The Company shall retain a right in the agreement to appoint its own auditors for monitoring the operations of service provider and such auditors maybe given access to the internal/concurrent audit report of the servicing facility agent or else the servicing facility agent shall share the funding/ observation on underlying assets highlighted by their concurrent/ internal auditor.

**7.4 Periodic Board level oversight**

- Portfolio update shall be put to Risk Management Committee (RMC) on quarterly basis.

**8. OTHER POINTS**

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**8.1 Provisioning of the loans**

The Company shall follow its independent provisioning requirements including declaration of account as NPA as per the regulatory guidelines applicable.

**8.2 Assignment of the Loan**

Any assignment of loan by a co-lender to a third party can be done only with the consent of other lender in respect of loan sourced under co-lending.

**8.3 Provision of Credit Enhancement**

The Originator (NBFC including HFC) shall not provide any Credit Enhancements in any form and liquidity facilities in case of loan transfers through Co-lending and Co-lending Akin to DA.

**8.4 Disclosure & Reporting**

The Company will make appropriate disclosures in their financial statement, under "Notes to Accounts" relating to the total amount of loans not in default / stressed loans transferred and acquired to / from other entities.

**8.5 Review of the Co-lending Policy**

The policy shall be at least reviewed annually for scope and content so that it remains aligned to the changes in the regulatory requirements, business conditions and the Companies own business strategy & risk appetite. The board approved Co-Lending Policy will be placed on Company website as well.