PROFECTUS CAPITAL

Policy For Co-lending of Loans

Introduction

Reserve Bank of India (RBI) through its circular dated RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 November 05, 2020 on co-lending of loans by banks and NBFC for lending to priority sector, has introduced the Co-lending model between banks and NBFCs for providing credit to priority sector. RBI has advised banks to formulate a Board approved policy for entering into Co-lending arrangement with NBFCs for creation of priority sector assets.

In accordance with the aforesaid guidelines, the primary focus of the scheme Co-Lending Model (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs.

Such arrangement shall entail joint contribution of credit at the facility level by both lenders. It shall also involve sharing of risks and rewards between the Party 1 (Bank in Bank & NBFC Model and NBFC in NBFC& NBFC Model) and the Party 2 (NBFC in Bank & NBFC Model and NBFC in NBFC & NBFC model) for ensuring appropriate alignment of respective business objectives, as per the mutually decided arrangement between the Party 1 and Party 2.

Co-lending model between the Bank & NBFC and NBFC & NBFC would help to increase market share, enable outreach and to expand and diversify the PSL portfolio.

Profectus Capital Private Limited (PCPL) in compliance with RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020- 21 is framing and adopting this policy for co-lending of loans.

Co-lending Arrangement Scenarios:

a. Scheduled Bank and PCPL Model – Scheduled Bank will be Party 1 and PCPL will Party 2

b. PCPL and NBFC Model - PCPL will be Party 1 and NBFC will be Party 2

Engagement Models with Banks under CLM:

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

a. the bank to mandatorily take their share of the individual loans as originated by NBFC in their books (herein after referred to as “Model 1”) or

b. retain the discretion to reject certain loans subject to its due diligence (herein after referred to as “Model 2”).

Model 1

• 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 PCPL, the arrangement shall comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide RBI Circular No. RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and with the extant guidelines on Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services by NBFCs issued vide RBI Circular No. RBI/2017-18/87 DNBR.PD.CC.No.090/03.10.001/2017-18 and updated from time to time. In particular, the partner bank and PCPL shall have to 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 on Outsourcing.

• The bank and PCPL 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 their option, to rely on customer due diligence done by a third party, subject to specified conditions.

Model 2

• If the bank exercise its discretion regarding taking into its books the loans originated by PCPL per the CLM Master Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over bank 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 and with the Master Direction - RBI (Securitisation of Standard Assets) Directions, 2021, dated September 24, 2021 and Master Direction - RBI (Transfer of Loan Exposures) Directions, 2021, dated September 24, 2021 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. The MHP exemption shall be available only in cases where the prior agreement between the banks and PCPL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

The key features and scope of the policy

Proposals for approval of credit norms for individual arrangements shall be approved by the Credit Committee

a. Credit Screening and Parameters

i. Party 1 and Party 2 shall mutually agree on parameters to source loans.
ii. Party 2 shall recommend to Party 1, proposals as found relevant based on the parameters for joint lending.
iii. Such sourcing parameters and credit screens shall be approved by the Head of Credit .

b. The selection criteria shall be predetermined depending on the underlying asset class.

c. The screens shall have distinct parameters such as ticket size, tenure, loan to value (LTV) (where applicable), credit bureau score (where available) etc.

d. The Party 1 shall independently assess the risks and requirements of the applicant/ borrowers. The proposal shall be considered in accordance with mutually agreed program.

e. Process of sanction and screening shall involve assessment of credit selection criteria, credit policy parameters and compliance to the policy filters set out by the relevant authority.

Sanction amount/exposure

Minimum 20% of the total loan proposed to be availed by the borrower shall be on Party 2’s books till maturity by way of direct exposure and the balance will be on the Party 1’s books. Actual % will be as per master agreement between Party 1 & Party 2.

Pricing

a. Party 1 shall price its part of the exposure through assessment of the borrower and the RBI regulations issued from time to time. Party 2 shall also have the flexibility to price its part of the exposure.

a. Based on the respective interest rates and proportion of risk sharing by Party 1 and Party 2, a single blended interest rate shall be offered to the ultimate borrower in case of fixed rate loans. The pricing, along with other terms and conditions shall be approved by the appropriate sanctioning authority.

b. Pricing methodology for the interest rate will be as per mutually agreed approved framework.

c. However, notwithstanding the charging of a single blended/ weighted average rate of interest from the borrower, the repayment/ recovery of interest shall be shared between the Party 1 and the Party 2 in proportion to their share of credit and interest.

d. Any other applicable charges shall be decided mutually between Party 1 and Party 2 and communicated to the borrower. Fees may be payable to PCPL for sourcing, collection, servicing or any other purpose. This amount will be negotiated with Party 1 on basis of the program and approved by CFO and CBO/CCO.

Know Your Customer (KYC)/Anti-Money Laundering Norms (AML)

KYC (Know Your Customer) norms and AML (Anti Money Laundering) Guidelines as applicable shall be complied with.

Escrow Account

Party 1 and Party 2 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.

Loan balances

The Party 2/ Party 1 shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement with the borrower, through appropriate sharing of required information between the Party 1/ Party 2

Security and Charge Creation

The Party 1 and Party 2 shall arrange for creation of security and charge as per mutually agreeable terms and the modality of such security and charge creation shall be as documented in the sanction note.

Provisioning/Reporting Requirement

a. The Party 1 and Party 2 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 Party 1 and Party 2 shall carry out their respective reporting requirements for their portion of lending, including reporting to Credit Information Companies, under respectively applicable laws and regulations.

Monitoring and recovery

The Party 1 & Party 2 shall put in place framework and processes for monitoring and recovery of the loans.

Assignment/ Change in Loan Limits

a. Any assignment of loans by the Party 1/ Party 2 shall be done only with the mutual consent of both the Party 1 and the Party 2. However, the Party 2 to hold minimum 20% of the total loan amount till maturity.

b. Any change in loan limit of the co-originated loan shall be done only with the mutual consent of the Party 1 and the Party 2.

Grievance Redressal

a. It shall be the responsibility of the Party 2 to explain to the end borrower regarding the difference between the products offered through the Co-lending model as compared to its own products.

b. The front-ending lender, Party 2, will be primarily responsible for providing the required customer service and grievance redressal to the borrower.

c. However, any complaint registered by a borrower with the Party 2 and/or Party 1 shall also be shared with the Party 1/ Party 2 and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Party 1 Ombudsman/ Ombudsman for Party 2.

Business Continuity Plan (BCP)

BCP shall be formulated to ensure uninterrupted service to the borrowers till repayment of the loans under the Co-lending arrangement.

Documentation requirements

The documentation requirement for all co-lending transactions shall be as advised by the Legal team and shall include suitable representations and warranties and other terms and conditions as approved in the sanction note. This will also include documentation of mutually agreed operational aspects between the Party 1 and Party 2.

Sanctioning authority

All arrangements with Party 2 shall be sanctioned by the appropriate approving authority from time to time. Detailed operational aspects for Co-lending process / product including the procedures to be adopted, shall be laid down separately in a Standard operating process document duly signed by all stake holders.

Co-branding of documents

Party 2 being the front end 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.

Customer Service

Party 2 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 between the respective Party 1 and Party 2.

Safe custody of loan documents

Executed documents custody can be kept with Party 1 or Party 2 as per master agreement executed between the parties.

Inspection & Audit

The loans under the Co-Lending Model shall be subjected to periodic internal / statutory audit within PCPL and Party1 or Party2 to ensure adherence to its internal guidelines, terms of the agreement.

Existing customer of PCPL

If any existing borrower of the PCPL is sourced in both the conditions Party1/Party2, then it can be treated under Co-Lending Model but approval is subject to the existing relationship with PCPL in terms of repayments and other aspects which lead to assess the case.

Cross Sell

PCPL shall have rights to cross sell its/associates products to the customers under the Co-Lending Model program in both the types Party1 and Party 2.

Collection

Party 2 being the front end and service provider will do collection and service agreement for the same need to be done separately.

The Company will abide by all guidelines, directives instruction and advices of Reserve Bank of India as will be in force from time to time. The content of this policy shall be read in conjunction with above mentioned RBI Circular.

Any other regulatory changes in this regard will stand updated in the policy from time to time.