

# CO-LENDING POLICY

Version 2.0

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**OBJECTIVE OF CLM POLICY:**

The Reserve Bank of India (RBI) vide circular no. RBI/2020-21/63 FIDD. CO. Plan. BC.No.8/04.09.01/2020-21 has put in place a framework for co-origination and co- lending to priority sector by Banks and a category of Non-Banking Financial Companies (NBFCs). The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards. The earlier scheme of Co-origination has now been rechristened as "Co-Lending Model" (CLM), 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 to deeper markets and geographies.

**SCOPE OF CLM POLICY**

In terms of the CLM, Aye Finance Limited )Formerly known as Aye Finance Private Limited) (AYE FINANCE) is permitted to co-lend with all interested Banks & NBFC’s (collectively called as “Co-lending partner”) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, AYE FINANCE shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

Following are the requirements for implementing CLM in AYE FINANCE: -

1. AYE FINANCE along with Co-lending partner will formulate Board approved policy for entering CLM and display the same on their respective websites. Accordingly, AYE FINANCE has prepared this Policy.
2. A Master Agreement is to be entered into between the two partner institutions (AYE FINANCE and Co-lending partner) which shall inter-alia include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines, and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues in format prescribed by RBI.
3. The above-mentioned master agreement may include either of the below options: -
  - a. Co-lending partner to mandatorily take in their books, the share of the individual loan as originated by AYE FINANCE
  - b. Co-lending partner retain the discretion or right to reject certain loans subject to its due diligence before taking on their books.

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**OPTION (I)**

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 AYE FINANCE, 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 partner bank and AYE FINANCE 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.

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**OPTION (II)**

If bank can exercise its discretion regarding taking into its books the loans originated by AYE FINANCE as per the Agreement, the arrangement will be like 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, as updated from time to time, except for 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 Co-lending partner and AYE FINANCE contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

#### **CUSTOMER RELATED ISSUES**

- a) AYE FINANCE 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 AYE FINANCE and Co-lending partner.
- b) All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
- c) The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by AYE FINANCE conforming to the extant guidelines applicable .
- d) The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Co-lending partner and AYE FINANCE therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.
- e) AYE FINANCE should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.
- f) About grievance redressal, suitable arrangement must be put in place by AYE FINANCE and Co-lending partner to resolve any complaint registered by a borrower with AYE FINANCE 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.

#### **OPERATIONAL ASPECTS**

- a) AYE FINANCE and Co-lending partner shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/repayments) between AYE FINANCE and Co-lending partner relating to CLM shall be routed through an escrow account maintained with the Banks, to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between AYE FINANCE and Co-lending partner.
- b) The Master Agreement may contain necessary clauses on representations and warranties which the AYE FINANCE shall be liable for in respect of the share of the loans taken into its books by Co-lending partner.
- c) The AYE FINANCE & Co-lending partner shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
- d) The AYE FINANCE & Co-lending partner shall arrange for creation of security and charge as per mutually agreeable terms.
- e) AYE FINANCE and Co-lending partner shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.
- f) The loans under the CLM shall be included in the scope of internal/statutory audit within AYE FINANCE and Co-lending partner to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements
- g) Any assignment of a loan by AYE FINANCE and Banks to a third party can be done only with the consent of the other party.
- h) AYE FINANCE and banks 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 AYE FINANCE and Co-lending partner.