DMI HOUSING

POLICY ON CO-LENDING MODEL

OF

DMI HOUSING FINANCE PRIVATE LIMITED

Summary of Policy:

Policy Name	Policy on Co-lending Model
Issue and Effective date	May 19, 2022
Periodicity of Review	Annually
Owner / Contact	Credit and Business Team
Approver	Board of Directors

Date of Review	Date of Next Review	Comments/Remarks/Changes
May 19, 2022	On or before May 2023	First Issue of Document
June 21, 2023	On or before June 2024	Annual review

BACKGROUND:

The Reserve Bank of India had issued a notification dated November 05, 2020, bearing number RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/ 2020-21 on “Co-Lending by Banks and NBFCs to Priority Sector” (“RBI Guidelines’), through which it has outlined the co-lending model and issued the necessary guidance for co-origination and co-lending.

RBI vide this Notification 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 un-served and underserved sectors of the economy and make funds available to the ultimate beneficiary at an affordable cost giving better reach to the NBFCs. The model envisages a joint lending process in such a manner that the non-banking finance companies (NBFCs), Housing Finance Companies (HFCs) and the Banks can come together to collaborate and get into an arrangement to carry out joint origination and lending in the market and roles are defined for each party and the risks and rewards are shared by both the co-lenders. This model will not only help to leverage on the liquidity strengths of the banks and other FIs, but also will help make effective use of the deep reach of the NBFCs and HFCs, thereby making funds available to the ultimate beneficiaries at an affordable cost. Co-lending is joint contribution of credit/loans by Bank, NBFC and HFC at facility level with sharing of risk and reward.

The 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 the banks and greater reach of the NBFCs/HFCs.
In compliance with the requirement, the Board of Directors (“Board”) of DMI Housing Finance Private Limited (“Company” or “DMI HFC”), has adopted the Policy on Co-lending Model (“Policy”) for entering into a CLM. The Policy shall also be placed on the website of the Company.

GENERAL FRAMEWORK:

- DMI HFC will explore the possibilities of entering Co-lending arrangements with the Banks/NBFCs/ HFCs (“Lending Partner”) for co-origination and joint lending of Housing Loans and Loan Against Property (‘LAP’).

- The Company will enter collaborations with lending partner and execute a Master Co- Lending Agreement with the Lending Partner which will include terms and conditions of the arrangement, the criteria for selection of partners, the framework for the partnership, the credit screens that would be applied for the arrangement, the specific product lines and areas of operation, provisions related to segregation of responsibilities, customer interface and protection of customers rights and in line with the guidelines issued by RBI from time to time.

- The Master Agreement entered by the Company with the Lending Partner for implementing the CLM may provide either for the bank 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 subject to its due diligence.

- If the Master Agreement entails a prior, irrevocable commitment on the part of the Lending Partner to take into its books its share of the individual loans as originated by the Company, 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 Lending Partner and the Company shall have to put in place suitable mechanisms for ex-ante due diligence by the Lending Partner as the credit sanction process cannot be outsourced under the extant guidelines.

- If the Lending Partner can exercise its discretion regarding taking into its books the loans originated by the Company as per the Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over Lending 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/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 CLM. The MHP exemption shall be available only in cases where the prior agreement between the Lending Partner and the Company contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

- The Company in agreement with the Lending Partner and in accordance with this policy will source and process loans.

- The Company shall open the designated Escrow accounts for the arrangement and ensure to process and route loans under co lending through these specified accounts.

SELECTION CRITERIA OF POTENTIAL LENDNIG PARTNERS:

The DMI Housing needs to carryout necessary due diligence of the Lending Partner. The due diligence shall include the following criteria for selection of potential partners:

- Analysis of the financial statements of the Lending Partner for profitability and other financial parameters.
- Assessment of the performance of the Lending Partner's loan portfolio to ascertain the efficiency of its sourcing quality and collection processes. For this purpose, data pertaining to product mix, delinquency trends, and credit loss trends of the portfolio of the Partner shall be evaluated by the Company. In addition, Company may rely on reports from the credit rating agency.
- Assessment of qualitative factors such as market standing, and reputation of the promoters and historical performance of the portfolio originated.
- Vintage of the Lending Partner in the business.
- The Lending Partner should be registered with the RBI and governed by the regulations/provisions specified by RBI.

OPERATIONAL GUIDELINES FOR CO-LENDING :

Credit Screening Parameters	i. Sanctioning of individual loans shall be done as per the approved scheme & the Master Agreement entered between the Parties. ii. The Master Agreement may provide the Co-lender to either mandatorily take their share of the individual loans originated by the partner in their books as per the terms of the agreement or to retain the discretion to reject certain loans after their due diligence prior to taking in their books. iii. The Partner shall source loans that meets the parameter stated in the Master agreement. The Company shall be required to retain a minimum of 20 per cent share of the individual loans on their books.

Customer service	i. The Partner (loan originator) 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 between lenders. ii. All the details of the arrangement shall be disclosed to the customers upfront, and their explicit consent shall be taken. iii. The Company should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank/NBFCs/HFCs. iv. The front ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. v. With regard to grievance redressal, suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the Partner within 30 days, failing which the borrower would have the option to escalate the same with the concerned Ombudsman Office or the Customer Education and Protection Cell (CEPC) in RBI.
Borrower accounts& escrow mechanism	The co-lending Partners shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the Partners relating to CLM shall be routed through an escrow account, in order to avoid inter-mingling of funds.
Representations and Warranties	The Master Agreement may contain necessary clauses on representations and warranties which the Partner (Loan Originator) shall be liable for in respect of the share of the loans taken into its books by the Lending Partner.
Segment and loan ticket size	Sanctioning authority of the CLM may decide on the segment and areas where co-lending arrangement can be made by ensuring that should be as per master agreement/ mutually agreed credit policy. Maximum ticket size of loans under co-lending model also may be decided based on the segment, area of operation and credentials of the co-lending partner.
Interest rate	Company shall price own part of the exposure, in a manner found fit as per our respective risk appetite/ assessment of the borrower. The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable.
Know Your Customer (KYC)	The Company and Lending Partner shall comply with 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 and Know Your Customer and Anti Money Laundering Policy of the Company.

Documentation	The loan agreement would be executed as per mutually agreeable terms of the co-lenders. Documentation process, execution, preservation of executed documents, making the same available to the internal auditors etc. shall be as per the terms of the agreement. Formats of documents/ loan agreements to be developed in co-ordination with the Legal Departments of the Lending Partner . The documentation formats shall be the part of the agreement between the Co-lenders. Responsibilities for execution of documents,bearing of loss on account of fake documents/title deeds shall also be covered in the agreement.
Security and Charge creation	The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms. Creation of security and charge shall be completed as per mutually agreeable terms of the agreement. Necessary clauses & arrangement for creation of security, maintenance, statutory charge creation etc. shall be included in the agreement with Partners.
Monitoring, recovery, and asset classification	The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon. Each lender 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 theloan account.
Inspection and Audit	The loans under the CLM shall be included in the scope of internal/statutory audit within the Company and Partner to ensure adherence totheir respective internal guidelines, terms of the agreement and extant regulatory requirements.
Book Sharing and Other Conditions	a. The Master Agreement will contain necessary clauses on narration of originating Co-lender shall be liable for in respect of the share of the loans taken into its books. b. Both the Co-lenders 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 the co-lenders. c. Any assignment of a loan by a co-lender to a third party can be done with the consent of the other lender only.

Miscellaneous	➢ In case, DMI Housing ("Company") is a loan originator and entering the Co-lending arrangement with the Lending Partner. In that scenario as per the Co-lending Guidelines issued by RBI, the Company should be responsible for the following: a. The Company shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower. b. The Company should be able to generate a single unified statement of the customer. c. Suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the Company within 30 days. d. The Company shall be liable for in respect of the share of the loans taken into its books by the Lending Partner.

ROLE OF BUSINESS PARTNERSHIP COMMITTEE:

The Business Partnership committee shall be responsible for identification, selection, and onboarding of the Lending Partners as per the criteria specified in this policy.

They shall be the final authority to approve all the commercial terms with the Lending Partners under CLM.

REVIEW OF THE POLICY:

The Policy shall be amended or modified with approval of the Board. The Policy shall be reviewed by the Board on an annual basis. Consequent upon any amendments in RBI Guidelines or any change in the position of the Company, necessary changes in this Policy shall be incorporated and approved by the Board.

Notwithstanding anything contained in this Policy, in case of any contradiction of the provision of this Policy with any existing legislations, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rules, regulation or enactment shall prevail over this Policy.

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