DMI FINANCE

Co-Origination Lending/Co-Lending Policy

OF

DMI FINANCE PRIVATE LIMITED

SUMMARY OF POLICY:

Policy Name	Co-Origination Lending/Co-Lending Policy
Periodicity of Review	Annual
Owner / Contact	Compliance Department
Approver	Board of Directors

Date of Review	Date of Next Review	Comments/Remarks/Changes
September 3, 2021	On or before September 2022	Annual Review
May 20, 2022	On or before May 2023	General alignment with regulatory provisions/laws and business of the Company.

1. 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 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 Finance Private Limited **(“Company” or “DMI”),** has adopted the Co-origination Policy **(“Policy”)** for entering into a CLM. The Policy shall also be placed on the website of the Company.

DMI has forged strong and stable partnerships to source consumer durable loans, personal loans and MSME loans. To provide further impetus to growth, a need is felt to do strategic tie-up with large Scheduled Commercial Banks (excludingRegional Rural Banks and Small Finance Banks) and NBFCs to co-originate loans.

2. OBJECTIVE:

This document is proposed:

- to empower DMI to form strategic tie-ups by entering Co-lending arrangements with Scheduled Commercial Banks and NBFCs(hereafter referred as “Lending Partner”) and together as “parties”
- to enable DMI to utilize the existing and future network partner channels (“Channel Partners”)in co-originations of variety of loan products with Lending Partner.

3. APPLICABILITY:

This policy is applicable throughout India for providing Personal Loans, Consumer Durable Loans and MSME loans. DMI and Lending Partner will operate jointly for acquisition of such customers from the Channel Partners.

Monitoring of the policy guidelines and procedures regarding identification of the borrower, KYC compliance, documentation, disbursement, collection and recovery and any other functionwill be a joint responsibility of both DMI and Lending Partner and exact responsibilities and process will be detailed out at the time of forming the tie-up arrangement subject to applicable regulatory requirements.

4. GENERAL FRAMEWORK:

- 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 Lending 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 into by the Company with the Lending Partner for implementing the CLM may provide either for the Lending Partner to mandatorily take their share of the individual loans as originated by the Company 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.

5. SELECTION CRITERIA OF POTENTIAL LENDING PARTNERS:

The DMI 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 Lending 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 RBI and governed by the regulations/provisions specified by RBI.

6. Operational Guidelines for Co-Lending:

i. Credit Screening Parameters:

a. Sanctioning of individual loans shall be done as per the approved scheme & the Master Agreement entered between the Parties.
b. The Master Agreement may provide the parties 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.

ii. Sharing of Risks and Rewards:

Minimum 20% of the credit risk by way of direct exposure shall be on DMI's books till maturity and the balance will be on Lending Partners' books.

DMI shall give an undertaking to the Lending Partner that its contribution towards the loan amount is not funded out of borrowing from the co-originating Lending Partner or any other group companyof the Lending Partner.

iii. Interest Rates:

DMI would have the flexibility to price its part of the exposure, while the Lending Partner shall price its part of the exposure in a manner found fit as per their respective risk appetite/ assessment of the borrower and the RBI regulations issued from time to time.

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.

iv. Know Your Customer:

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

v. 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.

vi. Common / Escrow Account:

DMI and the Lending Partner 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. Regarding loan balances, both parties shall maintain individual borrower's accounts and should also be able to generate and share a single unified statement to the customer, through appropriate sharing of required information. 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.

vii. 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.

viii. Customer Service:

a. 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.
b. All the details of the arrangement shall be disclosed to the customers upfront, and their explicit consent shall be taken.
c. The Company should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the Lending Partner.
d. The front ending lender, will be primarily responsible for providing the required customer service and grievance redressal to the borrower.
e. 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 (loan Originator) 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.

ix. Monitoring & Recovery:

Parties shall create the framework for day to day monitoring and recovery of the loan, as mutually agreed upon.

x. Security & Charge Creation:

Parties shall arrange for creation of security and charge as per mutually agreeable terms. Necessary clauses & arrangement for creation of security, maintenance, statutory charge creation etc. shall be included in the agreement with Partners.

xi. 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 to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

xii. 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.

xiii. Provisioning / Reporting Requirement:

Each party shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each party shall carry out their respective reporting requirements including reporting to Credit Information Companies, under respectively applicable law and regulations for their portion of lending.

xiv. Assignment / Change in Loan Limits:

Any assignment of loans by any of the parties can be done only with the mutual consent. Further, any change in loan limit of the co-originated facility can be done only with the mutual consent of both the parties.

xv. Business Continuity Plan:

Both the Lending Partner and DMI shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-origination agreement.

xvi. Documentation:

a. The loan agreement would be executed as per mutually agreeable terms of the co-lenders.

b. 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.

c. 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.

d. Responsibilities for execution of documents, bearing of loss on account of fake documents/title deeds shall also be covered in the agreement.

7. 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.

8. 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.

****