

SAMUNNATI FINANCE PRIVATE LIMITED	
<b>POLICY</b>	Co-Lending by banks & NBFC to priority sector (Revised norms on Co-origination) Policy
<b>Reviewing Authority:</b>	Board of Directors
<b>Approving Authority:</b>	Board of Directors
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## Glossary:

<u>SL</u>	<u>Term</u>	<u>Definition</u>
<b>1.</b>	<b><u>CLP</u></b>	Colending Partner Or Partner Institution : All financial institutions eligible to participate in line with extant RBI guidelines/regulations.
<b>2.</b>	<b><u>CLM</u></b>	<b><u>“Colending Model” as defined in RBI Circular dated on Nov 5, 2020 (FIDD.CO.Plan.BC.No.8/04.09.01/2020-21)</u></b>

### **1. SAMUNNATI CO-LENDING MODEL POLICY: Context & Background**

This CLM Policy (“The Policy”) document will act as principle and underlying document while considering transactions & partnership structuring with respect to Co-lending Partnership.

The current guidelines supersede the circular<sup>1</sup> dated September 21, 2018. However, outstanding loans in terms of the circular ibid would continue to be classified under priority sector till their repayment or maturity, whichever is earlier.

#### **Purpose**

As per the Master Circular - Priority Sector Lending- Targets and Classification issued by RBI, the total priority sector lending (PSL) for domestic scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) should be 40% of Adjusted Net Bank Credit or credit equivalent amount of off-balance sheet exposure, whichever is higher. Further, there are also sub-targets as a percentage of ANBC or CEOBE (Whichever is higher) to be achieved by bank’s specifically for agriculture (18%), micro enterprises (7.5%), and weaker sections (12.0% in a phased manner). Commercial banks are required to meet the PSL requirement specified in the aforesaid circular. However, banks often gets impacted due to outreach & infrastructure to reach out to the communities living in geographically remote areas. Consequently, apart from direct funding, banks have been exploring several options for meeting the minimum requirement. This step is taken by RBI to provide a competitive edge for credit to the priority sector and to mitigate the challenges faced by the banks on priority sector loans. The NBFCs operate on low-cost infrastructures and have reach to the remote locations. Coming together with NBFCs shall assist the banks to meet their PSL requirements with ease.

Given that Samunnati Finance Private Limited (“Samunnati” or “Company”) is lending to the agricultural sector, a large majority of the clientele of Samunnati would qualify as eligible PSL assets, if the facility were to be extended by a Commercial Bank. As of May 2022, more than 73% of the existing loan assets of Samunnati Finance would qualify for PSL treatment in our assessment. Co-Lending provides a great opportunity for Samunnati to co-opt commercial banks into our customers, increase the diversity of products that can be made available to the end-customers, as well as decrease the blended cost of lending to the customers. The impact of these steps would be the mainstreaming of our customers and agri value chains as an asset class with the commercial banks.

In September 2018, the RBI in form of directives<sup>1</sup> had announced “co-origination of loans” by banks and Non-Banking Financial Companies (NBFCs) for lending to the priority sector. The arrangement was

<sup>1</sup>RBI Circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018

<sup>2</sup>RBI Circular RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated Nov 5th, 2020

entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards.

Based on the feedback received from the stakeholders and to better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort, RBI issued revised directions<sup>2</sup> for partnership model between banks & financial institutions vide. The revised guidelines (Rechristened as “Co-Lending Model” - CLM) operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc. CLM targets 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.

## **2. Partnership Feature & Benefits**

The primary focus of 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 banks and greater reach of the NBFCs.

Samunnati would work with partner banks that would exhibit the following characteristics:

- The integrity of the partner to collaborate with Samunnati on the partnership
- The ability of the partner to understand our business model
- Willingness and ability of the partner to align with Samunnati’s processes, its speed of execution and flexibility of approach - key features of the Samunnati offering

### ***Advantages of Co-Lending:***

#### **To Partner Bank:**

- Portfolio qualifies under PSL as per RBI Circular dated Sep 04, 2020: Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21 under following clauses:
  - a. 8.2.C - Farm Credit (in case of FPO and retail farmer finance products): Loans up to ₹5 crore per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price.
  - b. Other Agri (in case of Agri enterprise portfolio)
  - c. Weaker Section: 8.5.VI - Loans to FPOs/FPC of individual farmers and co-operatives of farmers directly engaged in Agriculture and Allied Activities where the landholding share of SMFs is not less than 75 per cent
- Quick & economic scale up on most critical PSL assets as mentioned above at competitive rates
- Access to FPC portfolio, which is relatively a new segment of business for the bank.

#### **To Samunnati:**

- Superior yield owing to higher contribution from financial institutions on individual loans. Good source of on tap liquidity at lower cost of funds.
- Varied tie-ups with respect to product offerings- STL/MTL/LTL/ARF, other liability products and class of business. Tie up with reputed Financial Institutions including banks of India which can open possibility of cross selling other range of liability/asset product of bank through Samunnati’s FPC network.
- Custom made products with respect to business segment- AE/FPC/FPO/Individual farmer.
- Advisory support from financial institutions for designing new product class in line with existing business scope of organization.

- Fee income earned directly add on to bottom lines. Financial risk diversification on asset class.
- All the major activities which include - Documentation with customer, customer relationship management, monitoring, collection & supervision

The current guidelines supersede the circular<sup>1</sup> dated September 21, 2018. However, outstanding loans in terms of the circular ibid would continue to be classified under priority sector till their repayment or maturity, whichever is earlier.

### 3. Models under Co-Lending Partnerships

Samunnati shall adhere to the essential features of Co-lending model as per RBI guidelines. The Master Agreement entered into by Samunnati & partner banks may provide two channels for co-lending:

**Model 1: Back-to-Back Arrangement-** Banks & Samunnati shall disburse to a Escrow account on a back-to-back basis on the same day based on agreed contribution ratio. Post the same, Samunnati shall disburse the requisite amount to account of end customer. Bank to mandatorily take their share of the individual loans as originated by Samunnati in their books, the arrangement must comply with the extant guidelines<sup>4</sup> on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks. Particularly, the partner bank to have in place suitable mechanisms for ex-ante due diligence by the bank (as the credit sanction process cannot be outsourced under the extant guidelines).

**Model 2: DA Route-** Samunnati shall disburse 100% of the sanctioned loan amount to the account of the end customer. Based on the agreed arrangement with partner banking institution, the partnerBank shall transfer its share of the loan amount to Escrow account on the predetermined day post initial disbursement & the said amount shall be transferred onward to Samunnati's account. In this case, the partner bank shall have the prerogative to accept or reject cases after due diligence of individual loans originated by Samunnati as per pre agreed conditions mentioned in Product Note/Master Agreement. Bank to 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<sup>5</sup>. There is an exception of Minimum Holding Period (MHP) in such transactions undertaken in terms of the CLM.

Both models are driven by extended RBI norms as specified in below mentioned circulars

Applicable model	RBI guideline - Key take away	Circular for reference
Back-to-back arrangement	<b>Code of Conduct in Outsourcing of Financial Services by Banks</b> - Credit sanction process cannot be fully outsourced to NBFC under this arrangement.	RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015.
Back to Back & DA Model	Permits regulated entities, at their option, to rely on customer due diligence done by a third party ( IN this case Samunnati), subject to specified conditions.	RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016

<sup>4</sup>RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015

RBI/2018-19/49 FIDD.CO.Plan.BC.08/04.09.01/2018-19

<sup>5</sup>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

**Critical Criteria to be examined under Co-Lending Partnerships**

<u>SL</u>		<u>Particular</u>	<u>Details</u>
1		Class & Segment of Products	FPO - WC, FPO - TL, AE - WC, AE - TL SAFAL, IPL: To be considered based on digital journey
2		Model of Lending	CLM 1 (Back to back) or CLM 2 (DA Route)
3		Individual Borrower Limit	Currently not defined or capped under Colending model.
4		Commercials	<ul style="list-style-type: none"> <li>Contribution Ratio - <u>Samunnati contribution to be minimum 20% on individual loan sanction &amp; to be maintained through out loan life cycle on a pro rata basis.</u></li> <li>Max/Min lending price to end consumer</li> <li>Extend of parametrisation in underlying products.</li> <li>Price offered by bank</li> <li>Blended ROI Stipulation for end customer</li> <li>Management Fee to SAMFIN</li> <li>Processing fee (Sharing between Samfin and Bank)</li> </ul>
5		Program Sanction	<ul style="list-style-type: none"> <li>Sanction limit to set up and check if enhancement is permissible</li> </ul>
6		Tenor	Should be in line with SamFin credit policy as per different products
7		Document format	To be followed as per SamFin norms or bank norms or blended norms
8		Repayment	Mode of collections & Remittance to Samunnati/CLP. Requirement of Escrow Accounts (Collection/Disbursement/Both)
9		Master Agreement conditions	Entered between two partnering institution (Bank & NBFC) which broadly covers : Terms & 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

**Approvals for co-lending transactions shall be as follows**

- Head Co-lending - Recommendation
- Treasurer & Chief Financial Officer - Approver

#### 4. Policy

##### **Prospective investor:**

All financial institutions that are eligible to participate in co-lending under the relevant RBI Guidelines, as may be amended from time to time.

**4.1 Development of Joint Framework:** Samunnati and the partner banks to enter into a master agreement which includes mutually agreed operating framework for pricing, monitoring guidelines, disbursement and collections framework, servicing and escalation matrix, accounting framework, NPA recognition and recovery process for entire portfolio generated under co-lending model (“Joint Framework”). Joint Framework shall be customized to ensure smooth customer service under each partnership program.

**4.2 Credit Underwriting Framework:** Samunnati shall follow the existing credit assessment framework as per Credit Policy for evaluation of requirements of applicant borrower under co-lending. Any additional data/documents requirements by the partner banks for their credit shall be mutually decided.

**4.3 Tech integration:** Endeavour shall be made for technical integration to help in reducing operational cost and to streamline MIS, financial and regulatory reporting.

**4.4 Pilot/ Program approach:** The partnerships can be rolled out as pilot or a program, if required, to understand and resolve teething issues/test the Operating Framework; and to make it more robust. Subject to an acceptable cap on the pilot/ program size and time frame between Samunnati and the partner banks, the Operating Framework would undergo some changes and/or iterations post-launch of the Pilot/ program but prior to a larger-scale commercial rollout of the co-lending partnership.

**4.5 Sharing of Risk and Rewards:** Samunnati at its own discretion and in agreement with partner Bank can decide upon credit risk by way of direct exposure that it intends to take on its book subject to minimum of 20% of loan amount. As per agreement Samunnati and the partner Bank can decide to have different credit risk exposure ratio for different business/product segment with same co-lending partner. Samunnati shall ensure that its contribution towards the loan is not funded out of borrowing from the co-originating bank or any other group company of the bank

**4.6 Interest Rate:** Basis respective risk appetite, assessment of the borrower and the RBI regulations issued from time to time, both Samunnati and partner bank would have flexibility to price their part of the exposure. Ultimate beneficiary would be charged a single blended/ weighted average rate. Accordingly, repayment/ recovery of interest shall be shared between the NBFC and the partner Bank in proportion to their share of credit and interest.

**4.7 Know Your Customer (KYC):** Samunnati and partner Bank shall adhere to RBI<sup>3</sup> 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 and as per the prevailing KYC/AML policies of Samunnati & Partner bank, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party.

<sup>3</sup> RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016

**4.8 Credit Sanction:** Both Samunnati and partner bank shall be entitled to independently assess the risks and requirements of the applicant borrowers. Samunnati shall not outsource credit decisioning/underwriting of the proposal.

**4.9 Documentation:** Customers will be required to execute tripartite loan document where both Samunnati and the partner Bank shall be parties as lenders to the loan agreement with the customer alternatively Samunnati shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower. In such agreement, all the details of the Co-lending arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken. The actual method of documentation will be decided in consultation with the Partner Bank.

**4.10 Common Account:** Samunnati and partner Bank shall route all transactions through an escrow common account maintained with banks for pooling their respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers to avoid inter-mingling of funds.

**4.11 Data Maintenance:** Individual borrowers' account details shall be maintained with Samunnati and partner Bank. As per agreement Bank, Samunnati would share appropriate customer information with each other to enable generation of single unified statement to the customer.

**4.12 Monitoring & Recovery:** Samunnati would follow a mutually agreed framework for day today monitoring and recovery of the loan. Such framework would be unique for each partner Bank depending on business segment, geography, product type, exposure, etc.

**4.13 Security and Charge Creation:** Samunnati would follow a mutually agreed framework for creation of security and charge filing.

**4.14 Provisioning/Reporting Requirement:** Each of the lenders shall follow its independent provisioning requirements including declaration of account as NPA, as per the regulatory guidelines respectively applicable to each of them. Each of the lenders shall carry out their respective reporting requirements including Default & SMA, reposting to Information Utility, Credit Information Companies, etc. under applicable laws and regulations for their portion of lending. The loans under the co-lending agreement shall be subjected to periodic verification by Samunnati's internal/statutory auditors to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

**Assignment/ Change in Loan Limits:** Samunnati and the partner Bank can assign the loans only with the mutual consent of both the lenders. Further, any change in loan limit of the co-originated facility can be done only with the mutual consent of both the lenders.

**4.15 Grievance Redressal:** It shall be the responsibility of Samunnati to explain to end borrower regarding the difference between products offered through the co-lending model as compared to its own products and that Samunnati shall be primarily responsible for providing the required customer service and grievance redressal to the borrower. Any complaint registered by a borrower with either party shall also be shared with the other party and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same to concerned Banking Ombudsman/ Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and Samunnati therein shall be applicable mutatis mutandis in respect of loans given under the arrangement.

**4.16 Representation & Warranties:** The Master Agreement may contain necessary clauses on representations and warranties which Samunnati shall be liable for in respect of the share of the loans taken into its books by the bank.

**4.17 Business Continuity Plan:** Samunnati and the Bank shall mutually agree and formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-lending agreement.

The above features shall be appropriately incorporated in the agreement for co-lending entered by the Samunnati with a partner Bank basis mutual acceptance between Samunnati and the partner Bank.

#### **4.18 Deviations**

Deviations from this Policy, if any, shall be on an exceptional basis and shall be approved by the Management Level Risk Committee of Samunnati, subject to adherence to applicable regulations. Such deviations shall also be tabled to the Risk Management Committee of Samunnati at the subsequent Meeting.

#### **4.19 Review**

This Policy shall be reviewed at least once in two years, or when material changes are required / appropriate to ensure continued relevance. For changes required to be made to this policy on account of any regulatory changes, the Management Level Risk Committee shall approve the changes and the same shall be ratified by the Board at the subsequent Meeting. All other changes to the Policy shall be approved by the Board.

*The above features shall be appropriately incorporated in the agreement for co-lending entered by the Samunnati with a partner Bank basis mutual acceptance between Samunnati and the partner Bank.*

### **5. Roles & Responsibilities**

<b>S. No.</b>	<b>Parameter</b>	<b>Particulars</b>	<b>Co-Lending Arrangements</b>
1	Marketing & Sourcing	Lead generation & sourcing of eligible loan proposals.	Samunnati
2	Due Diligence & Field Investigation (FI)	Verification of basic KYC including directors, Document check, CIC check, Personal Discussion, Market reference & Field Investigation.	Samunnati
3	KYC authentication	KYC authentication with Officially Valid Documents (OVD) will be carried by Samunnati	Samunnati



		and obtention of C-KYC. Facilitation of opening of SB/CA with bank, if already not available.	
4	Credit underwriting	Underwriting will be done by Samunnati	Samunnati
5	Sanction	As per the delegation powers of Bank/ Samunnati (at the time of reimbursement)	Bank/ Samunnati
6	Interest rate and processing charges	a. Fixed interest rate to be ascertained & differential will be paid by bank to NBFC (Samunnati) to bank. b. Servicing fee of the loan amount (exclusive of taxes), collected, every month which shall be payable by bank till the loan is liquidated	Bank & Samunnati
7	Documentation	Execution of loan documents.	Samunnati
8	Custody and enforceability	The loan documents must be stored in a fireproof almirah under proper custody including timely obtaining revival letters, if any, required.	Samunnati
9	Security & Charges creation	Created by Samunnati	Samunnati
10	Disbursement	a. Bank & NBFC to disburse respective contribution on same day for every tranche disbursement - <b>CLM 1</b> b. 100% Loan disbursement by Samunnati on Day 1 & later to be reimbursed by Bank based on arrangement - <b>CLM 2</b>	Samunnati
11	Credit monitoring	Post sanction follow and monitoring	Bank/ Samunnati as defined
12	Verification of end use of credit	Ensuring end use of credit.	Bank & Samunnati as defined
13	Funds ratio	Contribution by both lenders in proportionate share	Bank & Samunnati as defined.
14	Collections	Responsibility of timely collections/ repayment of loan through Escrow Collection C/A account and reconciliation of Escrow Accounts	Bank/ Samunnati
15	Risk ownership	Sharing of the risk in case of default by the borrower.	Bank & Samunnati proportionately.
16	Hard recovery measures	Responsibility of initiating legal proceedings against the borrower in case of account turns into NPA.	Samunnati
17	Security Liquidation	Possession of SARFAESI compliant property accepted for collateral security.	Samunnati
18	Account statement	Unified account statement will be provided to customer.	Samunnati

19	Regulatory returns	The data to be shared with regulators and other Govt agencies and MIS/Data to be shared with bank as desired.	Bank & Samunnati
20	Bureau Reporting	<ul style="list-style-type: none"> <li>CLP Partners need to report respective portion of loan to various rating agencies. (CRISIL/HighMark/Equifax etc).</li> <li>One Account NPA, All accounts NPA criteria - If customer under Colending arrangement has independent Loan Ac/Finance facility with Colending bank &amp; if such an Ac moves into NPA bucket, then the bank would mark Co lending facility also as NPA &amp; hence Samunnati also need to adopt the same. Vice Versa is also applicable.</li> </ul>	Bank & Samunnati