SONATA FINANCE PRIVATE LIMITED (SFPL)

POLICY OF CO-ORIGINATION OF LOANS WITH BANKS

Version	Date of Approval / Review
V.1	22-10-2019
V.2	22-09-2020

1. INTRODUCTION

The Reserve Bank of India (RBI) issued guidelines on co-origination of loans by Banks and Non-Banking Financial Companies - Non-Deposit taking Systemically Important (NBFC-ND-SIs) to improve the assets under Priority Sector vide circular no. RBI/2018- 19/49 dated 21st September 2018. The object of co-origination arrangement is to entail "joint contribution of credit by both lenders" and involves "sharing of risks and rewards" between NBFC-ND-SIs and Banks.

2. OBJECTIVES

Based on the RBI guidelines, a policy for "Co-origination of Loans by Bank and SFPL" has been formulated with the following objectives:

a) Sourcing of New Loans
b) Support in Disbursement, Follow-up & Recovery
c) Lower NPA Rates
d) Priority Sector Lending

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3. ESSENTIAL FEATURES

Essential features of Co-origination model between Banks and SFPL. are as under:

a) **Sharing of Risk and Rewards:** Minimum 20% of the credit risk by way of direct exposure shall be on SFPL's books till maturity and the balance will be on bank's books. SFPL shall give an undertaking to the bank that its contribution towards the loan amount is not funded out of borrowing from the co-originating bank or any other group company of the partner bank.

b) **Interest Rate:** SFPL shall have the flexibility to price their part of the exposure, while bank may 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. An indicative illustration for arriving at the single blended/ weighted average rate is detailed in Annexure-A. 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 bank and SFPL in proportion to their share of credit and interest.

c) **Know Your Customer (KYC):** SFPL shall adhere to applicable KYC/ AML guidelines as per Sonata's KYC Policy as approved/ amended by the Board, from time to time.

d) **Loan Sanction:**

- SFPL shall recommend to the Bank proposals as found relevant for joint lending. The lenders shall be entitled to independently assess the risks and requirements of the applicant borrowers. The loan agreement would be tripartite in nature, wherein, both, the Bank and SFPL shall be parties as lenders to the loan agreement with the customer.

- Only demand loan/ Term loan with fixed repayment shall be considered for sanction under co-origination model.
- Delegated authority for sanction of loans of SFPL will be the same as per extant Office Order issued from time to time.

e) **Common Account:** The Bank SFPL 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, SFPL / Bank 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 with the Bank/ SFPL.

f) **Monitoring & Recovery:** Both lenders shall create the framework for day to day monitoring and recovery of the loan, as mutually agreed upon.

g) **Security and Charge Creation:** The lenders shall arrange for creation of security and charge as per mutually agreeable terms.

h) **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 reporting to Credit Information Companies, under respectively applicable law and regulations for their portion of lending.

i) **Assignment/ Change in Loan Limits:** Any assignment of loans by any of the lenders can be done 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.

j) **Grievance Redressal:** It shall be the responsibility of SFPL to explain to end borrower regarding the difference between products offered through the co-origination model as compared to its own products. The front-ending lender will be primarily responsible for providing the required customer service and grievance redressal to the borrower. However, any complaint registered by a borrower with SFPL and/or bank shall also be shared with the bank/ SFPL and in case, the complaint is not resolved within 30 days, the borrower would have the option to escalate the same with concerned Banking Ombudsman/ Ombudsman for NBFCs.

k) **Business Continuity Plan:** Both the bank and SFPL shall formulate a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans under the co-origination agreement.

l) **Inspection**: Submission of loan utilization certificate for loans up to Rs. 1 lac and receipt/bills of funds disbursed or utilization certificate beyond Rs.1 lac to be arranged by SFPL to ensure end use of funds. For all loans, periodical inspection to be done by SFPL and the records to be maintained thereof.

m) **Internal Audit:** SFPL guidelines will be made applicable to all loans under co-origination model. BANK may follow its audit procedure for its portfolio.

n) **Service Fee Charge:** SFPL to charge service fee from co-lender for the work performed for their share of lending. The fee to be mutually decided and incorporated in the agreements.

4. INFORMATION TECHNOLOGY ENABLERS

The following processes will be enabled through IT integration (the list is not exhaustive):

- Rule based application for automation of appraisal and sanction.
- Escrow type common account for pooling respective loan contributions for disbursal as well as to appropriate loan repayments from borrowers.
- Generation of a single unified statement to the customer.
- MIS for disbursements, repayment due and recoveries made.
- Creation of fresh products codes as per the approved co-origination policy.
- Calculation of income sharing on monthly basis.

Any procedural requirement for implementation of the policy may be adopted after discussion with the Bank, which complies with the RBI's policy framework in this regard.

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Annexure- A

Indicative Illustration for calculation of Blended/ Weighted Average Interest Rate

Scenario 1: Fixed interest rates

Customers are offered fixed interest rate throughout life of loan.

	Example 1	
Blended interest rate calculations	**Bank**	**NBFC**
Benchmark Interest Rate	8%	9%
Spread	2%	3%
Interest rate to consumer	10% (A)	12% (B)
Loan contribution ratio	80%(C)	20%(D)
Blended interest rate (A*C)+(B*D)= E	10.40%	

Example 2	
Bank	**NBFC**
8%	9%
2%	3%
10% (A)	12% (B)
70%(C)	30%(D)
10.60%	

Scenario 2: Floating interest rates

	Example 1	
Change in Weighted Average interest rate	**Bank**	**NBFC**
Benchmark Interest Rate	8% (A)	9% (B)
Loan contribution ratio	80% (C)	20% (D)
Weighted Average Benchmark Interest Rate (X = A*C + B*D)	8.20%	
Spread	2% (E)	3% (F)
Weighted Average Spread (Y = E*C+F*D)	2.20%	
Weighted Average interest rate offered to customer at the time of disbursement (X + Y)	10.40%	
Change in Benchmark Rate	0% (F)	+1% (G)
Revised Weighted Average Benchmark Interest Rate X' = [(A+F)*C + (B+G)*D]	8.40	
New Weighted Interest Rate (X' + Y)	10.60%	

Example 2	
Bank	**NBFC**
8% (A)	9% (B)
70% (C)	30% (D)
	8.30%
2% (E)	3% (F)
	2.30%
	10.60%
0% (F)	+1% (G)
	8.60
	10.90%

Other Charges

Any other applicable charges, will be decided mutually between co-originating lenders and communicated to the customer.

Note: The above illustration is only indicative in nature and is not mandatory. However, irrespective of the methodology employed by the lenders to arrive at the blended interest rate, it is envisaged that the benefit of low cost funds from banks and lower cost of operations of NBFC is passed on to the ultimate beneficiary.