

## Nido Co-Lending Policy

**Nido Home Finance Limited (Formerly known as Edelweiss Housing Finance Limited)**

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## 1. INTRODUCTION

### 1.1 BACKGROUND

Pursuant to the Reserve Bank of India (“RBI”) circular dated September 21, 2018 on co-origination of loans by Banks and NBFCs for lending to priority sectors, the Board of Directors of Nido Home Finance Limited (Formerly known as Edelweiss Housing Finance Limited) (“Nido”) approved co-lending policy in its meeting dated September 18, 2019.

In terms of the Board approved policy, Nido has entered into Co-origination tie-ups with several banks and commenced business for MSME Priority sector lending.

Reserve Bank of India has issued a circular dated November 05<sup>th</sup>, 2020 on Co-Lending by Banks and NBFCs (Including Housing Finance Companies) to Priority Sector (RBI/2020-21/63, FIDD.CO.Plan.BC.No.8/04.09.01/2020-21) (“Circular”) superseding its earlier circular dated September 21, 2018 on co-origination by banks and NBFCs for lending to priority sectors. Under the new Circular of RBI Co-Origination between Bank and NBFC, the policy is rechristened as Co-Lending Model (“CLM”) and the Circular introduced changes to bring operational flexibility to the lenders.

The aim of this Policy is to align the Co-lending Policy with the Circular and supersedes the earlier Board approved policy.

Revised guidelines were issued in supersession of the erstwhile circular applicable for Co-origination of loans by banks and NBFC’s for lending to priority sector having reference number FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018.

### 1.2 PURPOSE

Nido has received enquiries from major banks/NBFC’s to mutually explore Co-lending opportunity this includes expression of interest from some of our existing co-lending partner Banks/NBFC’s. Nido’s key objective is to promote business growth by leveraging the strength of Nido and the partner bank/NBFC (“Co-lending partner”). This document is to formulate the CLM Policy for Nido.

Nido proposes to engage with eligible banks/NBFC’s for exploring CLM opportunities across its existing and new products / segments which qualify as per the Circular.

### 1.3 SCOPE

The scope of this policy covers the products and guidelines to engage with eligible banks/NBFC’s for exploring CLM opportunities across its existing and new products / segments.

Also, the scope for partnering with for CLM opportunities shall be in compliance with RBI guidelines.

## 2. Nido ENGAGEMENT MODELS WITH BANKS/NBFC’S UNDER CLM

Nido shall, based on discussion with eligible Banks/NBFC’s, enter into CLM Master Agreements for implementing the model by either

- a. the Co-lending partner to mandatorily take their share of the individual loans as originated by Nido in their books (herein after referred to as “Model 1”) or
- b. the Co-lending partner to retain the discretion to reject certain loans subject to its due diligence (herein after referred to as “Model 2”).

## 2.1 WHEREIN UNDER MODEL 1

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 Co-lending partner and Nido shall have to put in place suitable mechanisms for ex-ante due diligence by the Co-lending partner as the credit sanction process cannot be outsourced under the extant guidelines on Outsourcing and as per Nido Outsourcing Policy.

The CLM Master agreement shall contain below key elements:

- Activities to be performed
- Ability to access all books, records, and information relevant to outsourced activity
- Continuous monitoring and assessment
- Termination clause and minimum period to execute a termination
- Customer data confidentiality and service provider's liability in case of breach of security and leakage of confidential customer related information. Contingency plan to ensure business continuity
- Prior approval for appointment of sub-contractors
- Right to conduct audits/inspection and access to documents by internal and external auditors, RBI or persons authorized by RBI or other regulators.
- Preservation of documents

## 2.2 WHEREIN UNDER MODEL 2

If the Co-lending partner exercises its discretion regarding taking into its books the loans originated by Nido per the CLM Master Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the bank taking over the loan 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 this CLM.

## 3. PRODUCTS FOR CO-LENDING

Nido will agree a common product program with the Co-lending partner. The product program will include the origination and disbursement policies and guidelines, in consultation with the Co-lending partner.

### 3.1 COMMON PRODUCT PROGRAM/ASSIGNMENT PARAMETERS

3.1.1 Under Model 1, Nido and the Co-lending partner will formulate a common product, policy, and guideline (PPG) for Co-lending. This PPG needs to be jointly signed off by the respective board approved authorized signatory for each lender.

3.1.2 Under Model 2, Nido and the Co-lending partner will pre-agree on the Assignment Parameters (AP) to be evaluated.

### 3.2 ORIGINATION

Nido shall identify and refer the potential customers to the Co-lending partner only if the customer complies with the underwriting Criteria applicable to the PPG / AP as applicable.

## 4. GEOGRAPHICAL STAGE

We are proposing to explore Co-lending opportunity across the Nido Network and partnership with other Banks/NBFCs/HFCs

## 5. CO-LENDING GUIDELINES

The proposed CLM arrangements are for the sector as eligible under the Circular from time to time. The key features of the proposed policy are summarised below:

### 5.1 BOARD APPROVED POLICY

- Nido shall share copies of this policy with Co-lending partner, if required
- The Board approved CLM policy shall be placed on Nido's official website to comply with the Circular

### 5.2 SHARING OF RISK AND REWARDS

For all loans under CLM arrangements Nido will directly hold exposure as per the extant RBI policy. Nido should hold minimum 20% of the credit risk (20 % share of the individual loans on Nido's books) until maturity. Any change in loan limit shall be subject to agreed appropriate terms and the nature of the mutual agreement with Co-lending partner.

### 5.3 COMMERCIALS

- Interest rate- The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by Nido & Co-lending partner ("Co-lenders") conforming to the extant guidelines applicable to both.
- Fees and Expense sharing for other activities- Appropriation between the Co-lenders may be mutually decided basis mutual CLM Master agreement with Co-lending partner.
- AUM / Servicing Fees / Any other commercial terms- Would be agreed mutually between Co-lenders.

All the commercial terms & conditions needs to be signed off by the board approved authorized signatory for each Co-lending partner.

#### 5.4 DUE DILIGENCE (KNOW YOUR CUSTOMER)

Nido will adhere to Extending Master Direction – Know Your Customer (KYC) Direction, 2016 issued vide RBI/2019-20/235 DOR.NBFC (HFC).CC.No.111/03.10.136/2019-20 dated May 19,2020 and updated from time to time and any other regulation as stipulated by RBI from time to time

#### 5.5 STANDARD OPERATING PROCEDURES

Nido to form a detailed Standard Operating Procedures (SOP) with each partner following the CLM master agreement.

#### 5.6 CREDIT APPRAISAL

Nido has an existing underwriting framework, and all the loans will be evaluated based on the existing diligence process The Credit appraisal process shall be suitably adapted to adhere to the mutually agreed SOP with Co-lending partner as may be required from time to time.

Co-lending partner shall be entitled and responsible to independently assess the credit risks of the applicant borrowers being proposed under CLM.

#### 5.7 LOAN SANCTION

Under the CLM arrangements, the process of sanction letter issuances and the loan agreement execution would be detailed in the SOP as mutually agreed with Co-lending partner.

#### 5.8 BORROWER LOAN DOCUMENTATION

Necessary disclosures in the Borrower Loan Agreement would be required as mandated in the applicable RBI guidelines

#### 5.9 AUDIT

The loans under the CLM shall be included in the scope of internal/statutory audit within the Co-lending partner and Nido to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

#### 5.10 CUSTOMER SERVICE & GRIEVANCE REDRESSAL

- Nido shall be the single point of interface for the customers and shall generate a single unified statement of the Borrower Loan under CLM, through appropriate information sharing arrangements with the Co-lending partner. All the details of the arrangement shall be disclosed to the customers upfront, and their explicit consent shall be taken
- The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Co-lending partner and Nido therein shall be applicable in respect of loans given under the arrangement.
- Nido shall be responsible for grievance redressal, wherein suitable arrangement must be in

place as per RBI/NHB guidelines.

#### 5.11 ESCROW ACCOUNTS

Nido & Co-lending partner shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/repayments) between the Co-lending partner and Nido relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between Nido & Co-lending partner. Nido and the Co-lending partner shall open escrow accounts with the Bank acting as the Escrow Bank.

Under Model 1:

Escrow Disbursal Account shall be used for:

- Nido & Co-lending partner to pool in funds for Borrower Loan disbursal in their respective sharing ratio and

Escrow Collections Account shall be used for:

- Collection from Borrower repayments to be pooled in and
- Appropriation of Funds between Co-lenders as per agreed terms

Under Model 2:

Escrow Disbursal Account shall be used for:

- 
- Co-lending partner Bank to remit its share for Nido as per the agreed ratio

Escrow Collections Account shall be used for:

- Appropriation of Funds between Co-lenders as per agreed terms

#### 5.12 MONITORING & RECOVERY

Nido already has a loan monitoring and Early Alert Process for all the loan segments and the same will be followed for CLM loans. Addition / Modification to the existing process will be done from time to time to maintain a healthy credit book. The salient features of the exposure monitoring process are as follows:

- The Review & Monitoring will be performed both at the portfolio level and at the account level following the delinquency and the asset classification norms as directed by the regulators.
- We may engage with external agencies for improving the efficacies of our collection process and use publicly available databases to assist in the monitoring of the underlying exposure.

- Nido would be responsible for conducting the periodic monitoring of the facilities and sharing the information with the co-lending bank. The format and frequency shall be agreed bi-laterally with the partner Bank.
- Nido would be monitoring the facility and lead collection and recovery efforts for the CLM Loans, including invocation of credit guarantee, Insurance claims. Nido would also do necessary client engagement for recovery of the loan proceeds. The proceeds recovered by Nido will be shared with Co-lending bank on pro-rata basis for the risk exposure. The cost of providing the recovery agency services would be agreed in the CLM Master Agreement.

#### 5.13 SECURITY & CHARGE CREATION

For CLM Loans the security and charge where applicable will be created as agreed between the Co-lenders.

#### 5.14 PROVISIONING/REPORTING REQUIREMENT

Nido will follow the asset classification and provisioning requirements, as per applicable RBI guidelines. Nido shall also carry out the respective reporting requirements including reporting to Credit Information Companies as per applicable law and regulations for its portion of lending.

In case, if Co-lending partner, due to their internal guidelines, wants to create any prudent provisioning, then it shall not impact the other Co-lending partner.

#### 5.15 DIRECT ASSIGNMENT TRANSACTION BETWEEN NIDO & CO-LENDING PARTNER

Loans originated by Nido and subsequently approved by Co-lending partner under Model 2, would be assigned to Co-lending partner under an Assignment and Servicer Agreement. The process for such agreements, inter alia including standard formats and agreed turn-around time shall be mutually agreed with Co-lending partner as part of the SOP.

#### 5.16 ASSIGNMENT/CHANGE IN LOAN LIMITS

Co-lenders can enter into a third-party loan assignment agreement with the consent of the other party for assigning their share in the CLM Loan by complying with the Circular

#### 5.17 BUSINESS CONTINUITY PLAN

Notwithstanding termination of CLM Master Agreement, Co-lenders should ensure that Borrower servicing shall be rendered till each loan originated under this CLM agreement is completely repaid or settled as detailed in the SOP agreed with the Co-lending partner.

#### 5.18 REPRESENTATION & WARRANTY CLAUSE

The CLM Master Agreement may contain necessary clauses on representations and warranties as per RBI guidelines.

## 6. REVIEW & AMENDMENT

Co-lending policy shall be annually reviewed in accordance with any regulatory/statutory requirement and shall be approved by the Board of the Company.