

**PARGRO INVESTMENTS PVT LTD**

**POLICY ON CO-LENDING  
WITH BANKS 2024-25**

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**PARGRO INVESTMENTS PVT LTD**

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## POLICY ON CO-LENDING WITH BANKS 2024-25

### PART A

#### 1. Regulatory Background

The Co-Lending Policy issued by the Reserve Bank of India (“RBI”) - Vide circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018 - proposed guidelines on co-origination of loans by Banks and NBFCs. However, with a view to better facilitate the implementation of the policy to improve the credit flows to underserved sector of the economy and make the funds available to the ultimate beneficiary at affordable costs, the RBI vide its guideline RBI/ 2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 5, 2020 decided to provide greater operational flexibility to the lending institutions and accordingly, has revised the existing scheme as “Co-Lending Model” (“CLM”).

As per RBI Guidelines dated November 5, 2020, all banks and NBFCs, for lending under the CLM, shall frame their policies approved by their Boards for entering into the Co-Lending Arrangement (“CLA”) and place the approved policy on their website.

#### 2. Summary of Regulation

CLM is designed to improve the flow of credit to the unserved and underserved sectors of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds of the banks and greater reach of the NBFCs.

The CLM guidelines require the banks and NBFCs entering into a co-lending arrangement to have a ‘Master Agreement’ for the purpose of implementing the CLM. There are two co-lending models permitted under the regulation – CLM1 and CLM2. CLM 1 revolves around a simultaneous collaboration between banks and NBFCs in loan origination and disbursement. Both entities contribute their agreed-upon portions, originating and disbursing the loan jointly. This model fosters shared responsibility and close operational coordination. Under CLM2 model, the NBFC originates and disburses the loan, after which the bank, at its discretion, reimburses up to 80% of the loan to the NBFC.

#### 3. Co-Lending – A Strategic Choice for Pargro

Pargro Investment Pvt Ltd (“Pargro” or the “Company”) has decided to embark on a Co-Lending program along with Partner Banks to improve the credit flows to its ecosystem consisting of, amongst others, contractors, dealers, processing units, interior designers, carpenters, etc. In light of the above, Pargro has formulated a CLM Policy (“Policy”). The Board has approved CLM Policy on 21<sup>st</sup> August 2008. The approved Policy would be available on its website.

## **PART B – POLICY ON CO LENDING**

### **1. Objective of the Policy**

The objective of the Policy is to provide a framework which will enable Pargro to lend under the CLA with banks to improve credit flow to its customers.

### **2. Scope of the Policy**

The Policy covers the role and responsibilities of the Company in lending under the CLM in line with regulatory guidelines referred to above and other guidelines as may be applicable.

### **3. Ownership, Validity, and Review**

Pargro's Credit Department is responsible for the formulation of the Policy. Pargro's Managing Director & CEO and Chief Financial Officer are severally authorized to take appropriate decisions and actions for the effective implementation of the Policy.

The Policy will be valid for 1 year from the date of approval. However, the implementation of the Policy would be reviewed on a 6 monthly basis during this period. In case there are any regulatory changes during this period, the same would be incorporated immediately and Board informed of the same for *post facto* approval.

If any inconsistencies are observed between the Policy and RBI guidelines, the guidelines of the RBI will prevail upon the Policy.

### **4. Eligible Banks for Co Lending**

Pargro will enter into an arrangement under CLM with all Scheduled Commercial Banks (excluding Regional Rural Banks and Small Finance Banks). However, CLM shall not be applicable to Foreign Banks (including WOS) with less than 20 branches.

The Partner Bank can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specific conditions, as the case may be.

### **5. Lending Arrangement**

Partner Bank is permitted to co-lend with Pargro based on a prior agreement. Two co-lending arrangements are possible between Pargro and the Partner Bank:

- a. Arrangement 1: A prior and irrevocable commitment by the partner bank to mandatorily take its pre-determined share, and a joint contribution of credit at the facility level by both Pargro and the Partner Bank, basis ex-ante due diligence by the bank, parameters for which would be recorded in the Agreement, after Pargro has sourced and evaluated the loan.
- b. Arrangement 2: The Partner Bank may, at its discretion, take-over or reject a share in the loan originated and disbursed by Pargro on a non-recourse basis

except as may have be provided in the Agreement, basis a set of pre-determined and agreed parameters.

In case of option (b), the Partner Bank can exercise its discretion regarding taking into its books the loans originated and disbursed by Pargro as per the mutually agreed set of parameters. This arrangement will be akin to a direct assignment transaction. Accordingly, the Partner Bank, which takes over the loans, 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 the CLM. The MHP exemption shall be available only in cases where the prior agreement between Pargro and Partner Bank contain a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

Both the arrangements would entail loan, risk and reward sharing between the Partner Bank and Pargro for ensuring appropriate alignment as per mutually decided in the Agreement between both the lenders. However, in all cases, Pargro shall retain a minimum of 20% share of the individual loans on its books till maturity.

Pargro will ensure that while lending under this Policy, it adheres to all the applicable regulations including, but not limited to, those on KYC/AML, Fair Practices Code, IRAC norms, Data Protection, Customer Service and Grievance Redress etc. Further, Pargro will also ensure that for any loan that has been disbursed under the CLM, the standard of sourcing, appraisal, documentation and compliance with regulations and its policies would be same as would have been the case if the entire loan were being disbursed solely at the behest of Pargro.

## **6. Master Services Agreement (MSA)**

A MSA will be entered into between Pargro and the partner bank. It will include amongst others items, terms and conditions of the arrangement, areas of operations, specific product lines, provisions related to separation of responsibilities, data privacy, customer interface service issues, grievance redressal mechanism, etc.

The MSA will provide for the partner bank to enter into either of the two Arrangements described above. The MSA will also provide for the bank to either mandatorily take their share of the individual loans originated by Pargro in their books as per the terms of the MSA or to retain the discretion to reject certain loans after their due-diligence prior to taking in their books.

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

The MSA may contain necessary clauses on representations and warranties which Pargro shall be liable for in respect of the share of the loans taken into their books by the Bank.

## **7. Loans under CLM**

Loan under CLM will be provided to Individuals/proprietorship concerns and partnership firms etc. Only term loans will be provided under CLM with maximum tenure of 5 years. Borrower shall be eligible for fresh loan subject to satisfactory performance of the existing loan and requisite appraisals for the new loan. Loans will have a margin requirement of minimum 15%.

## **8. Know Your Customer**

The responsibility for conducting the CDD and KYC documentation would be that of Pargro. Pargro and the Partner Bank will comply with the 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.

## **9. Interest Rate**

The borrower will be charged a composite, an all-inclusive interest rate as may be decided by Pargro. Interest rate will not be a floating rate. Pargro will not charge any processing fees or pre-payment charges.

Pargro and the partner bank shall have the flexibility in pricing their part of exposure in accordance with internal pricing strategies as agreed between both the parties. The interest as received from the customer shall be shared between Pargro and the Bank in proportion to their respective share and the interest rate agreed between the parties.

## **10. Customer Related Issues and Customer Communication**

Customer Acquisition and Disbursal: Pargro will acquire the customers, do the credit evaluation, and disburse the loan to the customer as per the relevant product program.

Customer Interface: Pargro shall be the single point of interface for the customers with the loan account reflected in its systems. For monitoring propose, both the lenders will maintain respective individual accounts for their respective shares separately. Pargro shall enter into a tripartite loan agreement with the borrower, which shall clearly mention the arrangement and contain the features of the arrangement and the roles and responsibilities of Pargro and the partner bank. Moreover, per Co-Lending Policy of the RBI, the customer will get a joint application form, a joint sanction letter and enter into a joint loan agreement with the Bank and Pargro. Pargro shall generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.

Disclosure and Consents: All the details of the arrangement between Bank and Pargro shall be disclosed to the customers upfront and their explicit consent shall be taken, as required by the regulation.

## **11. Loan Operations**

Escrow Account: Pargro and the partner bank shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the Pargro and the Partner Bank relating to CLM shall be routed through an escrow account maintained with the partner bank, to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the Co - Lenders.

Monitoring and Recovery: Both Pargro and the Partner Bank shall establish a framework for monitoring and recovery of the loan. Basis the framework, Pargro will monitor, services and recover the loans as mutually agreed upon. Pargro will continue to service the customers including collection, repayment and any other legal recourse as the case may be in case of default.

Provisioning and Reporting Requirements: The Pargro and the Partner Bank 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 for their respective share of the loan account.

Audit: The loans under the CLM shall be included in the scope of internal/statutory audit within Pargro and the Partner Bank to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

Business Continuity Plan: Both the Bank and Pargro shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the CLM Agreement, in the event of termination of co-lending arrangement between the co- lenders. BCP should cover redundancy of core systems, process and external partner services.

## **12. Customer Service and Fair Practices Code and other guidelines**

The extant guidelines relating to Fair Practice Code, data protection, customer service, regulatory reporting and other guidelines as may be applicable to operations under the CLM, and the obligations enjoined upon the partner bank and Pargro therein, shall be applicable *mutatis mutandis* in respect of loans given under the arrangements.

## **13. Grievance Redress**

Regarding grievance redress, a suitable arrangement would be put in place by both the co-lenders to resolve any complaint registered by a borrower with Pargro within 30 days. Basis the arrangement, Pargro will be responsible for the resolution of grievances. In case of failure to resolve the complaint, the borrower would have the option to escalate the same with the Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

\*End\*