



Avanti Microfinance Private Limited

## Assignment Policy

This document was:

Version	Drafted by	Reviewed by	Board approval and adoption date
Version 1	Mr. Manish Thakkar, Director	Mr. Nagaraj Subrahmanya, Director	March 11, 2022
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## 1. BACKGROUND

The Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (“**Directions**”) requires lenders to put in place a comprehensive board approved policy for transfer and acquisition of loan exposures governed by the Directions which, *inter alia*, must lay down the minimum quantitative and qualitative standards relating to due diligence, valuation, requisite IT systems for capture, storage and management of data, risk management, periodic board level oversight, etc. Pursuant to the Directions, the board of directors (“**Board**”) of Avanti Microfinance Private Limited (hereinafter referred to as “**Company**” which term includes its successors and assigns) has sought to adopt this policy to ensure compliance under these Directions and applicable law.

## 2. Key Definitions as per the Directions.

- 2.1 “*economic interest*” refers to the risks and rewards that may arise out of loan exposure through the life of the loan exposure;
- 2.2 “*transfer*” means a transfer of economic interest in loan exposures by the transferor to the transferee(s), with or without the transfer of the underlying loan contract, in the manner permitted in these directions;
- 2.3 “*transferor*” means the entity which transfers the economic interest in a loan exposure under these directions;
- 2.4 “*transferee*” means the entity to which the economic interest in a loan exposure is transferred under these directions;
- 2.5 “*stressed loans*” mean loan exposures that are classified as non-performing assets (NPA) or as special mention accounts (SMA);
- 2.6 “*portfolio*” means a set of loan exposures transferred together at a point of time under the same transfer agreement;
- 2.7 “*permitted transferees*” mean the lenders specified at sub-clauses (a), (d), (e) and (f) of Clause 3;
- 2.8 “*minimum holding period (MHP)*” means the minimum period for which a transferor must hold the loan exposures before the same is transferred to transferee(s);

- 2.9 “*credit enhancement*” means a contractual arrangement in which an entity provides some degree of added protection to other parties to a transaction so as to mitigate the credit risk of their acquired exposures;

Definition of other terms used in this policy are as stated in the Directions.

### **3. Permitted Transfers:**

#### **3.1 Transfers permitted to the following entities:**

- a) Scheduled Commercial Banks;
- b) Regional Rural Banks;
- c) Primary (Urban) Co-operative Banks/State Co-operative Banks/District Central Co-operative Banks;
- d) All India Financial Institutions (NABARD, NHB, EXIM Bank, and SIDBI);
- e) Small Finance Banks; and
- f) All Non-Banking Finance Companies (NBFCs) including Housing Finance Companies (HFCs).

- 3.2 Exposures that do not meet the requirements of the Directions will not be permitted for transfers.

- 3.3. In case Company is the transferor, Company may perform the role of a servicing facility provider for transferee after the loan transfer has occurred. In such case, Company shall ensure compliance with the relevant requirements of the Directions specifically para 26 and 27 of the Directions.

- 3.4 In case Company is the transferee, Company may outsource the role of a servicing facility provider after the loan transfer has occurred. In such case, Company shall ensure that the outsourced service provider is in compliance with the relevant requirements of the Directions specifically para 26 and 27 of the Directions.

- 3.4 The functioning and reporting responsibilities of the units and personnel involved in acquisition of loan exposures shall be independent from that of personnel involved in loan origination.

### **4. Valuation Methodology**

- 4.1 The transfer shall be only on cash basis and the consideration shall be received not later than at the time of transfer of loans. The transfer consideration should be arrived at in a transparent manner on an arm's length basis.
- 4.2 Loans (including stressed loans) will be transferred at valuations that are acceptable to various authorities such as Reserve Bank of India, Income Tax and other

applicable Regulators. Such valuation methods can be transfer at Book Value or any other method mutually agreed between both parties. The Company would need to ensure compliance with transfer pricing regulations of Income Tax Act, 1961. In each case the valuation method would need to be documented along with the rationale and justification and be approved either by the CEO/CFO of Avanti Finance Private Limited, the holding company.

- 4.3 Similarly, fees to be charged for providing servicing facility shall be as per the principles outlined in the Directions and as per norms acceptable to various authorities such as Reserve Bank of India, Income Tax and other applicable Regulators. The Company would ensure compliance with transfer pricing regulations of Income Tax Act, 1961.
- 4.4 The total asset pool size that is the subject of transfer shall be the basis or the grounds that will determine the type of valuation used - internal or external. The discount rate used in the internal valuation by the Company (when acting in the capacity of transferor) may be determined on the basis of the contracted interest rate charged. However, where such rate is not suitable, the discount rate may be determined on the basis of 'cost of equity' method, 'average cost of funds' method or 'opportunity cost', subject to the floor of the contracted interest rate charged.

## **5. Key Responsibilities**

### **5.1 General Responsibility (applicable to both Transferor/Transferee) :**

- 5.1.1 The Chief Finance Officer or the Chief Operating Officer of the holding company shall take internal decisions on the transfer / acquisition of loans (including stressed loans).
- 5.1.2 Loan transfer is transfer of economic interest without being accompanied by any change in underlying terms and conditions of the loan contract usually. If there are any modifications to terms and conditions of the loan contract during and after transfer (e.g. in take-out financing), the same shall be evaluated against the definition of 'restructuring' provided in Paragraph 1 of the Annex to the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions 2019, dated June 7, 2019.
- 5.1.3 A loan transfer is result of immediate separation of the transferor from the risks and rewards associated with loans to the extent that the economic interest has been transferred. In case of any retained economic interest in the exposure by the transferor, the loan transfer agreement should clearly specify the distribution of the principal and interest income from the transferred loan between the transferor and the transferee(s).

- 5.1.4 The Company needs to clearly distinguish transactions between 'Loan Transfers' & 'Loan Participation'.

In case of loan transfers, legal ownership of the loan shall be mandatorily transferred to the transferee to the extent of the economic interest transferred. Loan transfers shall result in transfer of economic interest without being accompanied by any change in underlying terms and conditions of the loan contract usually.

In loan participation transactions, the roles and responsibilities of the transferor and transferee shall be clearly delineated contractually as the legal ownership shall completely remain with the transferor even after economic interest has been transferred to transferee.

- 5.1.5 Offer of credit enhancements or liquidity facilities in any form in the case of loan transfers is not permitted.

- 5.1.6 The Company would not re-acquire a loan exposure, either fully or partially, that has been transferred by the entity previously, except as a part of a resolution plan under the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 or as part of a resolution plan approved under the Insolvency and Bankruptcy Code, 2016

The Company has no obligation to re-acquire or fund the re-payment of the loans or any part of it or substitute loans held by the transferee(s) or provide additional loans to the transferee(s) at any time except those arising out of breach of warranties or representations made at the time of transfer.

The Company should be able to demonstrate that a notice to this effect has been given to the transferee(s) and that the transferee(s) has/have acknowledged the absence of such obligation.

- 5.1.7 Any rescheduling, restructuring or re-negotiation of the terms of the underlying agreement/s attempted by the transferee after the transfer of assets to the transferee(s) shall be as per the provisions of the Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 issued vide circular DBR.No.BP.BC.45/21.04.048/2018-19 dated June 7, 2019. Accordingly, the transferee shall not reschedule, restructure or re-negotiate the terms of the underlying agreement/s without transferor's consent. Necessary clause to this effect should be put in the agreement.

- 5.1.8 Minimum holding period & minimum retention requirement

- 5.1.8.1 Loans can only be transferred after a minimum holding period (MHP), as prescribed by the Directions including, where applicable, para 39 of the Directions.
- 5.1.8.2 In case of loans where security does not exist or security cannot be registered, the MHP shall be calculated from the date of first repayment of the loan.
- 5.1.8.3 In case of transfer of project loans, the MHP shall be calculated from the date of commencement of commercial operations of the project being financed.
- 5.1.8.4 In case of loans acquired from other entities by a transferor, such loans cannot be transferred before completion of six months (and in case of stressed loans, before completion of twelve months or such other period as specified under the Directions) from the date on which the loan was taken into the books of the transferor or such other time permitted under the Directions.
- 5.1.9 The extant instructions on outsourcing and the applicable provisions of the Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 (as amended from time to time) shall be complied with in all cases.
- 5.1.10 Company's retention of economic interest, if any, in the loans transferred should be supported by legally valid documentation. A legal opinion regarding the following, at a minimum, should also be kept on record by the transferor:
- a) legal validity of amount of economic interest retained by the transferor;
  - b) the transferor not retaining any risk and rewards associated with the loans to the extent transferred to the transferee(s);
  - c) the arrangement does not interfere with transferee(s)' rights and rewards associated with the loans to the extent transferred to it, except to the extent of collaborative action contractually agreed between the transferor and the transferee(s) for enforcement of security, if any, including the scenarios in which the security interest is held by the transferor in trust for the trustees; and
  - d) the arrangement does not result in the transferor becoming an agent, trustee, or fiduciary of the transferee(s), except:
    - i. providing servicing facilities extended by the transferor, if any, post such transfer, to the extent of rights to cash flows in respect of the transferee(s); and
    - ii. collaborative action contractually agreed between the transferor and

transferee(s) in relation to enforcement of security including scenarios in which the security interest is held by the transferor in trust for the transferee(s)

5.1.11 Requisite IT systems would be in place for capture, storage and management of data pertaining to the transferred loan exposures and towards meeting the compliance requirements under the Directions.

5.1.12 The risks arising from these transactions, if any, would be monitored and managed in line with Company's Risk Management Policy as approved by the Board on March 22, 2021.

## **5.2 Specific responsibility of Company where it is the Transferor:**

5.2.1. There shall not be any difference in the criteria for credit underwriting applied by the transferor to exposures transferred and those held or retained on their book. To this end, similar processes for approving and, where relevant, amending, renewing and monitoring of credit facilities extended should be applied by the transferor for all the loan exposures originated by it.

5.2.2 The Company needs to make all efforts to monitor on an ongoing basis and in a timely manner performance information on the loans acquired, including through conducting periodic stress tests and sensitivity analyses, and take appropriate action required, if any. The procedures/actions to be taken for such monitoring depends on the size of the portfolio and would be documented in detail by the Company. While documenting the procedures/actions, the Company needs to ensure compliance with the relevant provisions of the Directions, specifically para 37 and 38 of the Directions.

## **5.3 Specific responsibility of Company where it is the Transferee:**

5.3.1 Company should have the unfettered right to transfer or otherwise dispose of the loans free of any restraining condition to the extent of economic interest transferred to it.

The Company shall have no recourse to the transferor for any expenses or losses linked to the transferred economic interest except those specifically permitted under the Directions. Accordingly, transfers should be accepted only after adequate due diligence.

The Company shall not be constrained to obtain consent from the transferor, when it comes to resolution or recovery in respect of the beneficial economic interest retained by or transferred to the respective entity.

- The due diligence in respect of the loan exposures to be acquired cannot be outsourced by the Company and should be carried out by its own staff with the same rigour and as per the same policies as the transferee would have done for directly originating any loan. The said due diligence requirements shall be applicable at the level of each loan. In case of loans acquired as a portfolio, in case the Company is unable to perform due diligence at the individual loan level for the entire portfolio, the due diligence should be performed at an individual loan level as per para 36 of the Directions. The following broad factors may be analysed/considered vis-à-vis the risk profile of the loan exposures proposed to be acquired, for the purpose of due diligence:
  - Credit quality
  - Sensitivity of the repayment behaviour,
  - Homogeneity of the portfolio,
  - Volatility of market value collateral securities,
  - Reputation of the originators, credit appraisals, credit monitoring standards
  - Independence of the valuer if the loans are transferred based on different valuations.

5.3.2 Company needs to monitor performance on the loans acquired. Such procedures should be as rigorous as that followed by them for portfolios of similar loans directly originated by them. The information required for these procedures, if not collected directly by the lenders and obtained from the servicing facility agent, if any, should be certified by the authorized officials of the servicing facility agent. Such performance can be through conducting periodic stress tests and sensitivity analyses, and take appropriate action required, if any. The procedures/actions to be taken for such monitoring depending on the size of the portfolio need to be documented in detail by the company. While documenting the procedures/actions, the company needs to ensure compliance with the Directions, specifically para 37 and 38 of the Directions.

5.3.3 In case of pool of loans acquired, transferee(s) should put in place mechanisms to enable application of relevant prudential norms on an individual obligor basis.

5.3.4 Regardless of the asset classification, if the net present value of the cash flows estimated while acquiring the loan is less than the consideration paid for acquiring the loan, provisions shall be maintained to the extent of the difference. For this purpose, the discount factor shall be the actual interest rate charged to the borrower as per the original loan contract plus a risk premium based on the asset classification of the loan on the books of the transferor. In any case, the risk premium will be



subject to a floor of 3 per cent.

**6. Reporting Responsibility**

- 6.1 The Company shall notify RBI (Department of Supervision) of all instances where it has replaced loans transferred to a transferee or paid damages arising out of any representation or warranty.
- 6.2 The transferee(s), as well as transferor(s) shall apply the extant income recognition, asset classification and provisioning as well as exposure norms, on individual obligor basis in all cases to the extent of retained economic interest.

**7. Accounting**

Any loss or profit arising because of transfer of loans, which is realised, should be accounted for accordingly and reflected in the Profit & Loss account of the transferor for the accounting period during which the transfer is completed. However, unrealised profits, if any, arising out of such transfers, shall be deducted from CET 1 capital or net owned funds for meeting regulatory capital adequacy requirements till the maturity of such loans.

Appropriate disclosures to be made in financial statements as prescribed in the Directions, specifically para 86 of the Directions.

**8. Review:**

The implementation of this policy shall be monitored and reviewed periodically by the Board of the Company.

**9. Record of Updates:** This Policy was:

- (i) drafted *on* behalf of the Company by: Manish Thakkar, COO of the holding company
- (ii) internally reviewed by: Nagaraj Subrahmanya, CRO of the holding company
- (iii) approved by the Board of the Company on: March 11, 2022; Revision 1 on : March 28, 2023; Revision 2 on : June 27, 2024; Revision 3 on : December 16, 2024

This Assignment Policy comes into effect immediately on the above date of approval.