

FAIR PRACTICES CODE

Pursuant to the Notification issued by the Reserve Bank of India by its Circular DNPS (PD) CC No. 340/03.10.042/2013-14 dated 1st July 2013, laying down the revised Fair Practices Code, the Company has formulated this Fair Practices Code (FPC) to lay down the following procedures/practices in dealing with the business transactions.

A. (i) Applications for loans and their processing

- (a) All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- (b) Loan application forms should include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form may indicate the documents required to be submitted with the application form.
- (c) The Company shall devise a system of giving acknowledgement for receipt of all loan applications. The time frame within which loan applications will be disposed of shall also be indicated in the acknowledgement.

(ii) Loan appraisal and terms/conditions

The company shall convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record. The company shall also mention the penal interest charged for late repayment in bold in the loan agreement.

The company shall furnish a copy of the loan agreement, preferably in the vernacular language as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

(iii) Disbursement of loans including changes in terms and conditions

- (a) The company shall give notice to the borrower in the vernacular language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. The company shall also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard shall be incorporated in the loan agreement.
- (b) Decision to recall / accelerate payment or performance under the agreement shall be in consonance with the loan agreement.

- (c) The company shall release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim the company may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which the company is entitled to retain the securities till the relevant claim is settled/paid.

(iv) General

- (a) the company shall refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender).
- (b) In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of the company, if any, shall be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- (c) In the matter of recovery of loans, the company shall not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc. The company shall also ensure that the staff are adequately trained to deal with the customers in an appropriate manner.

(v) Responsibility of Board of Directors

The Board of Directors of the company shall also lay down the appropriate grievance redressal mechanism within the organization to resolve disputes arising in this regard. Such a mechanism shall ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors shall also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews shall be submitted to the Board at regular intervals, as may be prescribed by it.

(vi) Grievance Redressal Officer

At the operational level, the company shall display the following information prominently, for the benefit of their customers, at their branches / places where business is transacted:

- (a) the name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company.
- (b) If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI

(complete contact details), under whose jurisdiction the registered office of the NBFC falls.

In short, the public notice shall serve the purpose of highlighting to the customers, the grievance redressal mechanism followed by the company, together with details of the grievance redressal officer and of the Regional Office of the RBI.

The company shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In this regard the guidelines indicated in the Fair Practices Code about transparency in respect of terms and conditions of the loans shall be kept in view.

(vii) Interest Rates

- (a) The Board of the company shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
- (b) The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the companies or published in the relevant newspapers. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.
- (c) The rate of interest shall be annualised rates so that the borrower is aware of the exact rates that would be charged to the account.

In addition to the general principles as above, NBFC-MFIs shall adopt the following fair practices that are specific to their lending business and regulatory framework.

B. (i) General:

- (a) The FPC in vernacular language shall be displayed by the company in its office and branch premises,
- (b) A statement shall be made in vernacular language and displayed by the company in their premises and in loan cards articulating their commitment to transparency and fair lending practices,
- (c) Field staff shall be trained to make necessary enquiries with regard to existing debt of the borrowers,
- (d) Training if any, offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan / other products,

- (e) The effective rate of interest charged and the grievance redressal system set-up by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website,
- (f) A declaration that the company will be accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises,
- (g) The KYC Guidelines of RBI shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers,
- (h) As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, all sanctioning and disbursement of loans shall be done only at a central location and more than one individual shall be involved in this function. In addition, there shall be close supervision of the disbursement function,
- (i) Adequate steps shall be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

(ii) Disclosures in loan agreement / loan card:

- (a) The company shall have a Board approved, standard form of loan agreement. The loan agreement shall be in vernacular language.
- (b) In the loan agreement the following shall be disclosed.
 - All the terms and conditions of the loan,
 - that the pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof),
 - that there will be no penalty charged on delayed payment,
 - that no Security Deposit / Margin is being collected from the borrower,
 - that the borrower cannot be a member of more than one SHG / JLG,
 - the moratorium between the grant of the loan and the due date of the repayment of the first instalment (as guided by the NBFC-MFIs(Reserve Bank) Directions, 2011),
 - an assurance that the privacy of borrower data will be respected.
- (c) The loan card shall reflect the following details as specified in the Non-Banking Financial Company - Micro Finance Institutions (Reserve Bank) Directions, 2011.
 - the effective rate of interest charged
 - all other terms and conditions attached to the loan
 - information which adequately identifies the borrower and
 - acknowledgements by the company of all repayments including instalments received and the final discharge.
 - The loan card should prominently mention the grievance redressal system set up by the company and also the name and contact number of the nodal officer
 - Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself.
 - All entries in the Loan Card shall be in the vernacular language.

(iii) Non-Coercive Methods of Recovery:

As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions.

NBFC-MFIs shall ensure that a Board approved policy is in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code should lay down minimum qualifications necessary for the field staff and shall have necessary training tools identified for them to deal with the customers. Training to field staff shall include programs to inculcate appropriate behavior towards borrowers without adopting any abusive or coercive debt collection / recovery practices. Compensation methods for staff should have more emphasis on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery. Penalties may also be imposed on cases of non-compliance of field staff with the Code of conduct. Generally only employees and not out sourced recovery agents be used for recovery in sensitive areas.

(iv) Internal control system:

As the primary responsibility for compliance with the Directions rest with the company, they shall make necessary organizational arrangements to assign responsibility for compliance to designated individuals within the company and establish systems of internal control including audit and periodic inspection to ensure the same.