

## UTKARSH MICRO FINANCE LIMITED

### FAIR PRACTICES CODE

#### **Applications for loans and their processing**

- All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- Loan application forms 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. The Company will devise a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of shall also be indicated in the acknowledgement

#### **Loan appraisal and terms/ conditions :**

- The Company will 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 annualized rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record.

#### **Disbursement of loans including changes in terms and conditions:**

- The Company will give notice to the borrower in the vernacular language or a 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 will 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.
- Decision to recall / accelerate payment or performance under the agreement will be in consonance with the loan agreement.
- The Company will release all securities on repayment of all dues or on realization 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 are entitled to retain the securities till the relevant claim is settled/ paid.

## General:

- The Company will refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless information, not earlier disclosed by the borrower, has been noticed).
- In the matter of recovery of loans, the Company shall not resort undue harassment viz; persistently bothering the borrowers at odd hours, use muscle power for recovery of loans etc. the Company shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner
- The Company shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to *individual borrowers*, with immediate effect.

## Responsibility of Board of Directors

- The Board of Directors of the Company lay down the appropriate grievance Redressal mechanism within the organization. Such a mechanism will insure 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 will 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 will be submitted to the Board at regular intervals, as may be prescribed by it.

## Grievance Redressal Officer

- The Company will display the following information prominently, for the benefit of their customers, at its 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 the Company falls.
- The public notice will 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

### Language and mode of communicating Fair Practice Code

- The Company shall put its Fair Practices code to all its branches in vernacular language. The same will be put up on web-site, for the information of various stakeholders.

### Regulation of excessive interest charged by the Company

- The Board shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium 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.
- The rates of interest shall also be available on the web-site of the Company.
- The rate of interest shall be annualized rate so that the borrower is aware of the exact rates that would be charged to the account.

### NBFC-MFIs

In addition to the above general principle the Company shall adopt following fair practices that are specifically applicable on NBFC MFI:

- (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 Company shall 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 MFI will be accountable for preventing inappropriate staff behaviour 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 sanctions 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 may 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.

#### **Disclosures in loan agreement / loan card**

- (a) All Company shall have a Board approved, standard form of loan agreement. The loan agreement shall preferably be in vernacular language.
- (b) In the loan agreement the following shall be disclosed
  - i. all the terms and conditions of the loan,
  - ii. 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),
  - iii. that there will be no penalty charged on delayed payment,
  - iv. that no Security Deposit / Margin is being collected from the borrower,
  - v. that the borrower cannot be a member of more than one JLG,

- vi. the moratorium period between the grant of the loan and the due date of the repayment of the first installment(as guided by the NBFC-MFIs(Reserve Bank) Directions, 2011),
- vii. 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:

- i. The effective rate of interest charged,
- ii. All other terms and conditions attached to the loan,
- iii. Information which adequately identifies the borrower and acknowledgements by the the Company of all repayments including installments received and the final discharge,
- iv. The loan card shall prominently mention the Grievance Redressal System set up by the Company and also the name and contact number of the nodal officer,
- v. Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself,
- vi. All entries in the Loan Card shall be in the vernacular language.

### **Non-Coercive Methods of Recovery**

As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, recovery shall 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 two or more successive occasions.

The Company 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 shall 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 shall 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 in cases of non-compliance by field staff with the Code of conduct. Generally only employees and not out sourced recovery agents be used for recovery in sensitive areas.

### **Internal control system**

As the primary responsibility for compliance with the Directions rests with the Company, The Company 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.

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