

Bank's Fair Practice Code for Microfinance Borrowers

In the light of the guidelines advised by RBI, the Fair Practices Code for our Bank to microfinance borrowers is given as under: -

- a. All collateral-free loan provided by the Bank to low-income households, i.e., households having annual income up to ₹3,00,000, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), shall be classified as Microfinance loan. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.
- b. To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.
- c. Bank shall submit the information regarding household income of the Microfinance borrower to the Credit Information Companies (CICs).
- d. While assessing eligible loan amount, Bank shall take into account loan repayment obligations on account of all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows shall be capped at 50% of the monthly household income including repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.
- e. Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50%, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50% is complied with.
- f. Bank shall disclose pricing related information to a prospective borrower in a standardized simplified factsheet. Any fees to be charged to the microfinance borrower by the Bank shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet. The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.
- g. There shall be no pre-payment penalty on microfinance loans. (Applicable penalties to be mentioned).
- h. Bank shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in our offices, in the information booklets/ pamphlets issued by us and details on our website.
- i. Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

Bank uses standard common loan agreement for microfinance loans which is available in Hindi, English and regional languages.

k. Bank shall provide a loan card to the borrower which shall incorporate the following in the language understood by the borrower:

(i) Information about the borrower.

(ii) Details of loan sanctioned.

(iii) Simplified factsheet on pricing.

(iv) All other terms and conditions attached to the loan.

(v) Acknowledgements by the Bank of each repayments including instalments received from the borrower and the final discharge.

(vi) Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.

l. If any non-credit products are issued to the borrower, Bank will ensure full consent of the borrowers for such products and fee structure for the products shall be explicitly communicated to the borrower in the loan card itself. m. Recovery of dues shall be made at the designated place decided mutually by the borrower and the Bank and mentioned in the terms and conditions of sanction. n. Bank shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:

(i) Use of threatening or abusive language.

(ii) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.

(iii) Harassing relatives, friends, or co-workers of the borrower.

(iv) Publishing the name of borrowers.

(v) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation.

(vi) Misleading the borrower about the extent of the debt or the consequences of nonrepayment. o. Bank has a dedicated mechanism for redressal of recovery related grievances. The details of this mechanism shall be provided to the borrower as part of sanction letter.

p. If Bank engages any agents for recovery of loan, we shall provide the details of recovery agents to the borrower while initiating the process of recovery. The agent shall also carry a copy of the notice and the authorization letter from the Bank along with the identity card issued by the Bank or the agency. Further, where the recovery agency is changed by the Bank during the recovery process, in addition to the Bank notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card. The notice and the authorization lettershall, among other details, also include the contact details of the recovery agency and the Bank. Bank shall host the up-to-date details of the recovery agencies engaged by us on our website.

SCHEME FOR MICROFINANCE LOANS

1. Introduction:-

Under the Reserve Bank of India directions, 2022 a Scheme named as Regulatory Framework for microfinance loans is being prepared which will be effective from 1st April, 2022

2. Definition of Microfinance Loan

- i) Microfinance loan is defined as a collateral – free loan given to a household having annual household income up to Rs.3,00,000. For this purpose, the household shall mean an individual family unit, i.e. husband, wife and their unmarried children.
- ii) All collateral-free loans, irrespective of end use and mode of application/processing/disbursal (either through physical or digital channels), provided a low-income households, i.e. households having annual income up to Rs.3,00,000/- shall be considered as microfinance loans.
- iii) To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.
- iv) The repayment should be flexible and as per borrowers requirement.

3. Assessment of Household Income

- i) An indicative methodology for assessment of household income is provided in [Annex-I](#).
- ii) It will be mandatory to submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs.

4. Loan Eligibility criteria and Repayment

- i) Limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household

income shall be subject to a limit of maximum 50 percent of the monthly household income.

- ii) The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.
- iii) Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.
- iv) We shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, we should also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.
- v) All collateral-free loans, irrespective of end use and mode of application/processing/disbursal (either through physical or digital channels), provided a low-income households, i.e. households having annual income up to Rs.3,00,000/- shall be considered as microfinance loans.

5. MARGIN : - N I L –

6. SECURITY : NO SECURITY-

7. INTEREST ON LOAN

- i) The pricing on the loan would be as per factsheet (in accordance with the illustration provided in [Annex II](#)). A copy to be provided to the customer.
- ii) There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.
- iii) Interest rates are prominently display the minimum, maximum and average interest rates charged on microfinance loans in all the

branches its offices, in the literature (information booklets/ pamphlets) issued and details on banks website. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny.

- iv) Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.
- v) RBI would also make available information regarding interest charged by Banks on microfinance loans.

8. Guidelines on Conduct towards Microfinance Borrowers

a) General

- i) A fair practices code (FPC) based on these directions shall be put in place by Bank. The FPC shall be displayed in all its branches and on Banks website. A loan card is also to be provided to the borrower which shall incorporate the following:
- ii) Information which adequately identifies the borrower;
- iii) Simplified factsheet on pricing;
- iv) All other terms and conditions attached to the loan;
- v) Acknowledgements by branch of all repayments including instalments received and the final discharge; and
- vi) Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.

9. Training of Staff

Bank shall provide training in respect of the scheme to the staff. Training is offered to the borrowers would be free of cost.

10. Guidelines related to Recovery of Loans

- (a) Recovery of loan would be as per banks recovery policy.
- (b) Bank shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.
- (c) Recovery shall be made at Banks branches. However, field staff shall

be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/ central designated place on two or more successive occasions.

- (d) Bank and its staff shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:
 - (i) Use of threatening or abusive language
 - (ii) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.
 - (iii) Harassing relatives, friends, or co-workers of the borrower
 - (iv) Publishing the name of borrowers
 - (v) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation
 - (vi) Misleading the borrower about the extent of the debt or the consequences of non- repayment
- (e) Bank shall have a dedicated mechanism for redressal of recovery related grievances. The details of this mechanism shall be provided to the borrower at the time of loan disbursal.

11. Bridge Loans / Interim Finance

The bank, have been prohibited from entertaining any proposal for bridge loan / interim finance including that against capital / debentures issues and / or in the form of loans of a bridging nature, pending raising of long term funds from the market by way of capital, deposits etc. from all the categories of non-banking financial companies i.e. equipment leasing, hire-purchase, loan, investment and also residuary non-banking companies.

12. Lending under Consortium Arrangement / Multiple Banking Arrangement.

The Bank shall not consider advances under Consortium Arrangement / Multiple Banking Arrangement.

Annex I

(Para 3(a) of these Directions)

Indicative Methodology for Household Income Assessment

1. For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

(i) Parameters to capture household profile

- a) Composition of the household
 - i. Number of earning members
 - ii. Number of non-earning members
- b) Type of accommodation (owned/ rented, etc.)
- c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)
- d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)

(ii) Parameters to capture household income

- a) Primary source of income
 - i. Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)
 - ii. Nature of work (Self-employed or salaried, regular or seasonal, etc.)
 - iii. Frequency of income (daily/ weekly/ monthly)
 - iv. Months/ days of employment over last one year
 - v. Self-reported monthly income
 - vi. Average monthly income (to be derived from (iv) & (v) above)
- b) Other sources of income
 - i. Remittance
 - ii. Rent/ Lease
 - iii. Pension

- iv. Government transfer
 - v. Scholarship
 - vi. Others (specify details)
- c) The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.
- d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

(iii) Parameters to capture household expenses

- a) Regular monthly expenses (food, utilities, transport, house/ shop rent, clothing, regular medical costs, school/ college fees, etc.)
 - b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)
2. Self-reported income at 1(ii) above may be corroborated with the profile of household at 1(i) and household expenses at 1(iii). Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

Annex II
(cf. Para 5 of these Directions)

Illustrative Factsheet on Pricing of Microfinance Loans
(to be provided in a language understood by the borrower)

Date: XXX
XXX

Applicant Name:

Sr. No.	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	20,000
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	3,274
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	400
	(a) Processing fees (in Rupees)	160
	(b) Insurance charges (in Rupees)	240
	(c) Others (if any) (in Rupees)	-
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	19,600
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	23,674
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	17.07%
(vii)	Loan term (in months)	24
(viii)	Repayment frequency by the borrower	Monthly
(ix)	Number of instalments of repayment	24
(x)	Amount of each instalment of repayment (in Rupees)	970
Details about Contingent Charges		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

Detailed Repayment Schedule

Instalment No.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Instalment (in Rupees)
1	20,000	720	250	970
2	19,280	729	241	970
3	18,552	738	232	970
4	17,814	747	223	970
5	17,067	756	213	970
6	16,310	766	204	970
7	15,544	775	194	970
8	14,769	785	185	970
9	13,984	795	175	970
10	13,189	805	165	970
11	12,384	815	155	970
12	11,569	825	145	970
13	10,744	835	134	970
14	9,909	846	124	970
15	9,063	856	113	970
16	8,206	867	103	970
17	7,339	878	92	970
18	6,461	889	81	970
19	5,572	900	70	970
20	4,672	911	58	970
21	3,761	923	47	970
22	2,838	934	35	970
23	1,904	946	24	970
24	958	958	12	970

The difference in repayment amount calculated from the total of instalments given under the detailed repayment schedule i.e., ₹23,280 (=970*24) (excluding ₹400 (other up-front charges)) vis-à-vis the amount of ₹23,674 (₹20,000 (loan amount) + ₹3,274 (Interest charges) + ₹400 (other up-front charges) mentioned under (v) is due to rounding off the instalment amount of ₹969.73 to ₹970 under the detailed repayment schedule.
