

## FAIR PRACTICES CODE

Version	Date of Approval
1.0	March 23, 2021
2.0	May 07, 2022

These fair practices code (“**Fair Practices Code**” or “**Code**”) sets the minimum fair practice standards Pragati Finserv Private Limited (the “**Company**”) shall follow while dealing with its borrowers in terms of the Guidelines on Fair Practices Code issued by the Reserve Bank of India vide Circular No. DNBS (PD) CC No.80/03.10.042/2005-06 dated September 28, 2006 as revised/updated by Master Circular No. DNBR (PD) CC.No.054/03.10.119/2015-16 dated July 01, 2015 (“**Guidelines**”). It provides a framework for dealing with the borrowers on day-to-day basis, as required by the Guidelines irrespective of the channel through which the products and/or services are provided.

### **1. Application for Loans and their processing**

- 1.1. All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- 1.2. Loan application forms shall 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 shall indicate the documents required to be submitted with the application form.
- 1.3. The Company shall provide 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.

### **2. Loan appraisal and terms and conditions**

- 2.1. 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.

### **3. Disbursement of loans including changes in terms and conditions**

- 3.1. The Company shall 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.

- 3.2. The Company shall also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard must be incorporated in the loan agreement.
- 3.3. The decision to recall / accelerate payment or performance under the agreement shall be in consonance with the loan agreement.
- 3.4. 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 they 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.

#### **4. General**

- 4.1. 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 Company.
- 4.2. 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 twenty one days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- 4.3. 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 ensure that the staff are adequately trained to deal with the borrowers in an appropriate manner.
- 4.4. The Board of Directors of the Company have laid down the appropriate Grievance Redressal Mechanism within the organization to resolve disputes arising in this regard. The Grievance Redressal Mechanism has been set up to ensure that all disputes arising out of the decisions of the Company's functionaries are heard and disposed of at least at the next higher level.
- 4.5. The Board of Directors shall also provide for periodical review of the compliance with this Fair Practices Code and the functioning of the Grievance 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 the Board.

- 4.6. At the operational level, the Company shall display the following information prominently, for the benefit of the borrowers, at our branches/places where business is transacted:

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.

- 4.7. If the complaint / dispute is not redressed within a period of one month, the borrower may appeal to the Officer-in-Charge of the Regional Office of Department of Non-Banking Supervision of Reserve Bank of India, under whose jurisdiction the registered office of the falls, which is as under:

***Officer in Charge  
Department of Non-Banking Supervision  
Reserve Bank of India  
6-1-56, Secretariat Road, Saifabad,  
Hyderabad-500 004***

- 4.8. Fair Practices Code shall be in the vernacular language as understood by the borrower.
- 4.9. The Board of Directors of the Company shall prescribe appropriate internal principals 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 have also been kept in view.

## **5. Regulation of excessive interest charged.**

- 5.1. 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 applicant in the application form.
- 5.2. The rate of interest and the approach for gradation of risks shall be made available on the website of the Company. The information published on the website shall be updated whenever there is a change in the rates of interest.
- 5.3. The rate of interest shall be annualized rates so that the borrower is aware of the exact rates that would be charged to the account.

## **6. Guidelines on Conduct towards Microfinance Borrowers**

As regards microfinance loans, the Company shall conduct its operations in adherence to the requirements set out below in compliance with Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

- 6.1. At the time of origination of each microfinance loan, the loan applicant shall be provided with the choice of fortnightly or monthly repayment periodicity.
- 6.2. The Company shall have a well-documented interest rate model/ approach for arriving at the all-inclusive interest rate. The Company shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.
- 6.3. 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.
- 6.4. The Company shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet as per prescribed format.
- 6.5. Any fees to be charged to the microfinance borrower by the Company and/ or its partner/ agent shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
- 6.6. The Company shall not charge any 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.
- 6.7. There shall be a standard form of loan agreement for microfinance loans in a language understood by the borrower.
- 6.8. The Company shall provide a loan card to the borrower which shall incorporate the following requirements. All entries in the loan card shall be in a language understood by the borrower:
  - 6.8.1. Information which adequately identifies the borrower;
  - 6.8.2. Simplified factsheet on pricing;
  - 6.8.3. All other terms and conditions attached to the loan;
  - 6.8.4. Acknowledgements by the Company of all repayments including instalments received and the final discharge; and
  - 6.8.5. Details of the grievance redressal system, including the name and contact number of the nodal officer of the Company.
- 6.9. Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.
- 6.10. Trainings, if any, offered by the Company to its borrowers shall be free of cost. All 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. The Company's field staffs shall be trained to make necessary enquiries with regard to existing debt of the borrowers.
- 6.11. The Company shall be accountable for preventing inappropriate staff behaviour and timely redressal of the grievances of the borrower. The above declaration shall also be made in the loan

agreement given to the borrower and also in the Code displayed in its office/branch premises and on Company's website.

6.12. Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the Company. 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. Company or its agent 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.

6.13. Any engagement of recovery agency, which shall, *inter alia*, cover individuals involved in the recovery process shall be in accordance with the due diligence process stipulated in the policy approved by the board of directors of the Company. Company shall ensure that the recovery agents engaged by it carry out verification of the antecedents of their employees engaged in recovery, which shall include police verification. Re-verification of antecedents such employees shall be performed on an annual basis.

6.14. To ensure due notice and appropriate authorisation, Company shall provide the details of recovery agency to the borrower while initiating the process of recovery. Company shall direct the recovery agency to ensure that its employees engaged in recovery also carry a copy of the notice and the authorisation letter from the Company (which, among other details, also include the contact details of the recovery agency and the Company) along with the identity card issued to him by the Company or the agency. Where the recovery agency is changed by the Company during the recovery process, the Company shall notify the borrower of the change and apply the foregoing requirements on the new agency.

6.15. The up-to-date details of the recovery agencies engaged by the Company shall be published on the Company's website.

## **7. Specific provisions of the Code applicable for Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI)**

Since the Company proposes to carry on the business of NBFC-MFI, the following additional provisions that are specific NBFC-MFI are also required to be adopted by the Company.

- 7.1. The Code in vernacular language shall be displayed by the Company in its office and branch premises.
- 7.2. The Company shall be committed to transparency and fair practices lending to its borrowers. The Company shall make a statement to this effect in the vernacular language and display the same in all its branches and also print it in all borrower loan cards.
- 7.3. The Company's field staffs shall be trained to make necessary enquiries with regard to existing debt of the borrowers.
- 7.4. Trainings, if any, offered by the Company to its borrowers shall be free of cost. All 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.
- 7.5. The Company shall display the effective rate of interest charged in all its offices and in the literature issued by it in vernacular language. The Grievance Redressal System of the Company shall also be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website.
- 7.6. The Company shall be accountable for preventing inappropriate staff behavior and timely redressal of the grievances of the borrower. The above declaration shall also be made in the loan agreement given to the borrower and also in the Code displayed in its office/branch premises.
- 7.7. The Company shall ensure that the KYC guidelines prescribed by Reserve Bank of India are complied with. Due diligence of each and every borrower shall be carried out to ensure the repayment capacity of borrowers.
- 7.8. All sanctions and disbursement of loans shall be done by the Company only at a central location and more than one individual will be involved in this function. In addition, there shall be close supervision of the disbursement function.
- 7.9. The Company shall ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

## **8. Disclosure in Loan Agreement/Loan card**

- 8.1. The Company shall have a board approved standard form of loan agreement, which shall preferably be in the vernacular language or in the language understood by the borrower.
- 8.2. The loan agreement shall disclose the following:
  - (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 SHG / JLG,
- (vi) The moratorium between the grant of the loan and the due date of the repayment of the first instalment,
- (vii) An assurance that the privacy of borrower data will be respected.

8.3. The loan card shall reflect the following details:

- (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 NBFC-MFI of all repayments including installments received and the final discharge,
- (iv) the loan card shall prominently mention the grievance redress system set up by the NBFC-MFI 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.

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

9.1. Recovery by the Company 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.

9.2. 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 of conduct shall lay down minimum qualifications necessary for the field staff and shall have necessary training tools identified for them to deal with the borrowers. Training to field staff shall include programs to inculcate appropriate behaviour towards borrowers without adopting any abusive or coercive debt collection / recovery practices.

9.3. 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 outsourced recovery agents shall be used for recovery in sensitive areas.

## 10. Customer Protection Initiatives

10.1. The Company shall ensure that greater resources are devoted to professional inputs in the formation of SHG / JLG and appropriate training and skill development activities for capacity building and empowerment after formation of the groups.

10.2. The Company shall be prudent and responsible in their lending activity besides educating its borrowers on the dangers of wasteful conspicuous consumption.

10.3. The Company shall adhere to the below mentioned customer protection principles.

- (i). Right to Suitability: The products offered should be appropriate to the needs of the borrower and based on an assessment of the borrower's financial circumstances and understanding.
- (ii). Prevention of over-indebtedness: Adequate care is taken as part of the credit process to determine that borrowers have the capacity to repay without becoming over-indebted.
- (iii). Transparency: Clear, sufficient, and timely information is communicated in a manner and language borrower can understand so that borrower can make informed decisions.
- (iv). Responsible pricing: Pricing, terms, and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable.
- (v). Fair treatment: The borrower should not be discriminated against on grounds such as gender, age, religion, caste and physical ability when offering and delivering financial products.
- (vi). Customer data privacy: The privacy of individual borrower data will be respected in accordance with the applicable laws and regulations and will only be used for purposes specified when the information is collected, unless otherwise permitted by the borrower.
- (vii). Grievance redressal mechanism: The company shall have in place a responsive grievance redressal mechanism and use that to resolve grievances/problems faced by the borrowers and improve products and services.

\*\*\*\*\*