

FAIR PRACTICE CODE

Fair Practices Code “FPC” of Navachetana Microfinance Services Private Limited (“the Company”) pursuant to guidelines of Reserve Bank of India vide its Master Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 and Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022.

Navachetana has adopted the Fair Practices Code as outlined below to conduct business transactions and implement procedures in conformity with the Reserve Bank of India guidelines

1. GENERAL GUIDELINES APPLICABILITY FOR LOANS & THEIR PROCESSING

A. All communications with the borrower shall be in Vernacular language or a language as understood by the borrower.

B. The Loan application form of the company includes all the essential information which affects the interest of the borrower, to enable the borrower to make a meaningful comparison with the terms and conditions offered by other Micro Finance Institutions. The borrower has to submit the following documents along with the application to obtain loan from Navachetana:-

o KYC Document in support of identity and address of borrower as prescribed by RBI
o Joint Passport size photograph with spouse /elder son/Guardian

o Demand Promissory Note and the Company will provide Demand Promissory o Receipt to the Borrower.

C. The company shall issue an 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.

D. The company shall, unless otherwise as may be mandated by the Reserve Bank of India, not take any security for the loan being disbursed to the borrower.

E. The company shall ensure that the total annual Household income of the borrower for being eligible, is not more than 3,00,000 and the monthly loan obligations of a household does not exceed 50 per cent of the monthly household income

LOAN APPRAISAL & TERMS/CONDITION0053

The concerned staff of the Company will convey in writing to the borrower in the vernacular language either through a Sanction letter or otherwise the following:

- A. The amount of loan sanctioned along with the terms and conditions applicable thereof;
- B. Annualized rate of interest as applicable for the loan and the method for calculation thereof along with the components of charges in the form of Fact Sheet;
- C. The company shall keep the acceptance of the borrower to the terms and conditions as contained in the Sanction letter or any other related document.
- D. No Penalty shall be charged for any pre-payment of loan;
- E. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount;
- F. The concerned staff should furnish copy of loan agreement to the borrower in Vernacular language along with all the enclosures (either in hard copy or the digital mode) quoted in the loan agreement at the time of disbursement of loans.

DISBURSEMENT OF LOANS INCLUDING CHANGE IN TERMS & CONDITIONS

- A. The Company will give notice to the borrower in Hindi 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 (if made applicable) etc. The Company shall also ensure that changes in interest rates and charges are affected only prospectively and a condition in this regard shall be incorporated in the loan agreement.
- B. Decision to recall / accelerate payment or performance under the agreement will be in consonance with the loan agreement
- C. The company shall complete the following documentation at the time of disbursement of loan: o
Base Line Data Forms “BLDF”
 - o Joint Liability Group Form “JLGF”
 - o Poverty Power Index Application
 - o Fact Sheet for pricing along with the repayment schedule
 - o The acceptance of the terms and conditions by the borrower

GRIEVANCE REDRESSAL MECHANISM

- o The Company has an appropriate and streamlined Client Grievance Redressal Mechanism in place wherein the complaints and queries of its clients are captured through the telephonic conversation, emails, drop box by and with the aggrieved client or her relative.
- o The Company has set up the Landline TOLL FREE Number; the number is printed & reflected on all the printed material such as client Loan Card, Loan Application Form, etc and displayed at the branches.
- o Grievances will be handled by the designated officer who will register the client complaints after clear understanding of the nature and type of the grievance, he/she will find the instant solution if possible, or in other case he/she will find out the corrective measurement with subsequent discussion with concerned branch In-charges, supervisors, or the Operations team for the particular complaint so lodged and will ensure to provide satisfaction to client with prompt solution.
- o In case the client is not satisfied with the outcome provided subsequent upon discussion with concerned supervisors or from investigation or the complaint is not resolved within 7 days, the matter will be referred to the Grievance Redressal Committee, which will investigate the issue and will take the necessary steps with due consideration and verification. The compliance of Fair Practices Code shall be reviewed through the Internal Audit Reports by the Audit Committee, being placed before the directors of the company.
- o In case any staff is found involved in any kind of misbehavior or misconduct, disciplinary action against accused such staff shall be taken immediately.
- o All the branches shall have a suggestion and complaint box where the clients can post their grievances.
- o The client shall have free and full access to lodge their inquiries, or complaints at the concerned branch office or to the Customer Care Cell during working hours between 8:30 am to 4:30 pm and on Saturday from 8:30 a.m. to 1:30 pm:
- o Escalation of Complaints to MFIN on its Toll-Free No. 18001021080, if the Company is unable to address the Complaint satisfactorily

o If the complaint or dispute is not redressed within a period of one month the client may appeal to the Officer-in-Charge of the Regional Office of Department of Non-Banking Supervision of RBI at the below address:

Designation	Dy. General Manager
Contact Address	Department of Non-Banking Supervision, Reserve Bank of India, M.G. Marg, Kanpur- 208001
Contact No.	0512-2303191
Email Id:	dnbskanpur@rbi.org.in

o A report on client grievance status and the functioning of the grievance redressal mechanism at the various levels of management will be placed & reviewed by the Board of Directors at regular intervals. The Board will also conduct periodical review of the compliance of Fair Practices Code

IMPLEMENTATION OF CODE OF CONDUCT

The Chief Compliance Officer of the Company is responsible for ensuring the implementation and compliance of the Code.

Board approved Fair Practices Code (which should preferably in Hindi or a language as understood by the borrower) based on the RBI guidelines will be displayed at the branch premises and put up on the website, for the information of various stakeholders.

REGULATION OF EXCESSIVE INTEREST CHARGED BY NBFCs

o The Board of the Company shall lay out the appropriate internal principles and procedures in determining interest rates, processing and other charges.

o The Company shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc.

- o The Company will charge uniform interest rate from the all borrowers without any discrimination and it will not charge different rate of interest to different categories of borrowers.
- o 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.
- o The rate of interest charge shall be displayed at the website and at each branch premises of the Company. Any change in the interest rate will be updated at website and explicitly communicated to borrower immediately.

In addition to the general principles as above, the Company will follow fair practices that are specific to its lending business and regulatory framework.

GENERAL

- a) The Fair Practices Code shall be displayed in its office and branch premises in the language understandable to the borrower.
- b) A statement shall be made in Hindi and displayed in premises and in loan cards articulating our 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 should be prominently displayed in all its offices 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 Company shall comply with the KYC Guidelines of RBI. Due diligence shall be carried out to ensure the repayment capacity of the borrowers,
- h) All sanctioning and disbursement of loans should be done only at a central location and there should be close supervision of the disbursement function,
- i) The Company will take adequate steps to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

DISCLOSURE IN LOAN AGREEMENT/LOAN CARD

- a) The Company shall at all times have a Board approved, standard form of loan agreement which shall also be in Hindi or a language as understood by the borrower.
- b) In the loan agreement of the Company shall disclose the following details:-
 - o All the terms and conditions of the loan,
 - o Simplified fact sheet on pricing including the repayment schedule
 - o No Pre-payment charges will be collected
 - o No Security Deposit / Margin is being collected from the borrower,
 - o Moratorium between the grant of the loan and the due date of the repayment of the first installment (as per the NBFC-MFIs (Reserve Bank) Directions, which shall not be less than the frequency of repayment
 - o An assurance that the privacy of borrower data will be respected. due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, the conditions for classification of the loan account as Special Mention Account (SMA) and NPA along with the examples.
- c) The loan card of the Company shall reflect the following details as specified in the Non-Banking Financial Company Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 and Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.
 - o Information which adequately identifies the borrower
 - o Simplified fact sheet on pricing
 - o Detailed terms and conditions attached to the loan
 - o Acknowledgements by the Company for all repayments including installments received and the final discharge.

- The loan card will prominently mention the grievance redressal system set up by the Company and also the name and contact number of the Customer Care Executive and 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.
- Loan Card should be in vernacular language.

NON COERCIVE METHOD OF RECOVERY

- a) Recovery should be made only at a central designated place.
- b) Group member shall collect the repayment installment and deposit at the Company's respective branch or nearby branch on behalf of the group.
- c) Field staff shall not be allowed to make recovery from the borrowers in any circumstance unless permitted by the Company or concerned supervisor of the area. However, while making the recovery the field officers must be aware that the following practices should not be followed:
 - Use of threatening or abusive language
 - Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.
 - Harassing relatives, friends, or co-workers of the borrower
 - Publishing the name of borrowers
 - Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation
 - Misleading the borrower about the extent of the debt or the consequences of non-repayment.
- d) The Company shall not engage recovery agents to collect money from borrowers.
- e) Staff shall be allowed to make recovery at the place of residence or work of the borrower only if the borrower fails to appear at the central designated place on 2 or more successive occasions.
- f) Staffs shall follow the client protection principles adopted by the Company and should not force the clients for recoveries.
- g) 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 should lay down the following provisions:
 - Minimum Intermediate is necessary for the field staff
 - 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.

CUSTOMER PROTECTION The Company ensures that greater resources are devoted to professional inputs in the formation of the JLG and appropriate training is provided and skill development activities are conducted for capacity building and empowerment after formation of the groups. The Company is prudent and responsible in its lending activities.

INTERNAL CONTROL SYSTEM 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.

INDUSTRY CODE OF CONDUCT In addition to the above fair practices code, the Company abides by the general Code of conduct in respect of transparency, self-discipline, co-ordination among MFIs and Healthy Competition, grievances and redressal Mechanism as set up by Sa-Dhan and Microfinance Institution Network (MFIN) of which the Company is a member.