

Micro finance - Fair Practice Code

1. Definition of Microfinance Loan

- a. A 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.
- b. All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to Rs. 3,00,000, shall be considered as microfinance loans.
- c. 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.
- d. Repayment periodicity on microfinance loans will be as per borrowers' requirement. Monthly repayment will be preferred.

2. Assessment of Household Income

- a. An indicative methodology for assessment of household income will be adopted.
- b. Information regarding household income will be submitted to the Credit Information Companies (CICs).
- c. The limit on the outflows on account of repayment of monthly loan obligations of a household will be maximum upto 50% of the monthly household income.
- d. 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.
- 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 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.

3. Pricing of Loans

- a. Interest rate on such loans will be as per BOARDs approval. (based on product)
- b. Other charges/fees will apply to these loans as approved by BOARD from time to time.
- c. pricing related information will be disclosed to a prospective borrower in fact sheet.
- d. Any fees to be charged to the microfinance borrower shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
- e. 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.
- f. Bank will publish interest rate on its website.
- g. change in interest rate or any other charge will be informed to the borrower well in advance and these changes will be effective only prospectively.

4. General

- a. Bank will provide a loan card to the borrower
 - i. General information
 - ii. Factsheet on pricing
 - iii. Sanction Letter with term & condition
 - iv. name and contact number of grievance redressal

5. Recovery of Loans

- a. Recovery will be made at a designated/ central designated place decided mutually by the borrower and the bank. 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
- b. Bank will not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, practices like..
 - 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
- c. Bank will have a dedicated mechanism for redressal of recovery related grievances.