

FAIR PRACTICE CODE

Introduction

This is a compulsory Code which sets minimum standards of business practices for the NBFC's to follow when they are dealing with customers. It provides protection to the customers and explains how NBFC's are expected to deal in their business operations.

The Code does not replace or supersede regulatory or supervisory instructions of the Reserve Bank of India (RBI) and we will comply with such instructions/directions issued by RBI from time to time. Provisions of the Code may set higher standards than what is indicated in the regulatory instructions and such higher standards will prevail as the Code represents best practices voluntarily agreed to by us as our commitment to the customers.

Background

Reserve Bank of India (RBI) vide its Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022 [RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22] has issued guidelines on Fair Practices Code for Non-Banking Financial Companies, prescribing broad guidelines on fair practices that are to be adopted and disseminated on the website of the Company for information of the public. In accordance with the broad guidelines prescribed by RBI, ACFL has framed its Fair Practices Code.

Objectives of the FPC

- Develop a comprehensive Fair Practices Code to adopt guidelines provided by regulator, self-regulatory organizations and global standards of client protection principles.
- Formulate operating guidelines for implementation of Fair Practices Code in an effective manner.
- Disseminate the policy guidelines in an effective manner to all stake holders in general and to customers & employees of ACFL in particular.
- Review & reinforcement mechanism to ensure high level of adherence to Fair Practices Code.
- Mechanism for constantly receiving feedback/grievances from customers in order to improve the implementation of Fair Practices Code.

Core Values of ACFL

We are committed to our core values in our all activities:

- Ethics
- Transparency
- Authenticity
- Discipline
- Credibility in approach, action and quality service delivery
- Mutual respect

Fair Practice code of the company is meant to ensure core values in all activities, such as

- Branch, Village or Area Survey
- Group Formations
- Application & Appraisal of Loan
- Compulsory Group Training & Group Recognition Test
- Sanction & Disbursement of Loan
- Interaction with Borrowers
- Post Loan Disbursement Documentation
- Recovery of Loan
- Recruitment of Staff

The code for the sake of convenience is divided in three parts.

Part I: General Guidelines:

1. Fair Practices Code will be displayed in in the office and branch premises...
2. A statement articulating our commitment to transparency and fair lending practices will be displayed in vernacular language on the loan cards and in the branch premises.
3. The effective rate of interest charged and the grievance redressal system / mechanism will be displayed on the website and also at all the branches in vernacular language.
4. ACFL will collect relevant documents from the clients as per KYC norms. We will also provide all essential information to the clients so they can do a meaningful comparison with other MFIs.
5. ACFL will furnish a copy of the loan agreement to each borrower, in the language understood by the borrowers/vernacular language. Agreement will enumerate all terms & conditions of product & company.
6. Decision to recall / accelerate payment or performance under the agreement would be in consonance with the loan agreement.

7. The acceptance of these terms and conditions by the borrower and all the other concerned documents will be kept on record/safe custody by the authorized persons.
8. A behavioural training will be given to field staff. Standard training will also be offered to field staff before putting them into business activities.
9. Our CGT will be provided to the JLG members free of cost. Our Field officer will train borrowers as per our training materials, covering inter alia detail of the company, our products, procedures, group guarantee concept, basics of finance & discipline etc.
10. We will endeavour to create awareness and enable customers to understand the information provided with respect to financial services offered and availed.
11. We 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 any hidden information has come to the notice of ACFL).
12. Employee of the company will always ensure the following during customers interactions:
 - a. Use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients.
 - b. DO NOT indulge in any behaviour that in any manner that would suggest any kind of threat or violence to clients.
 - c. DO NOT visit clients at inappropriate occasions such as bereavement, sickness, etc., to collect dues.
 - d. DO NOT resort to undue harassment viz. persistently bothering the borrowers at odd hours, use muscle power for recovery of loans etc.
 - e. Complaints from customers also include rude behaviour from the staff of the company.
 - f. Employees will not collect any unlawful money from the clients
13. For the benefits of the borrower, Company will appoint a Grievance Redressal Officer. Grievance Redressal Mechanism will be displayed to company website as well as premises of the company.

PART II - Micro credit procedure:

Applications for Loans and their processing:

- 1.1 All written or any communication to the borrowers will be in the vernacular language or in a language as understood by the borrower.
- 1.2 Loan application will be provided to each borrower which includes all the necessary information on the loan terms and condition to help the borrower in making an informed decision.
- 1.3 The loan application form will indicate the document required to be submitted with the application form.
- 1.4 A receipt of acknowledgement for loan application form will be given to clients indicating a time frame within which it shall be disposed.
- 1.5 In case of receipt of request form the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of the NBFC, if any, should be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- 1.6 The Company will not charge foreclosure/prepayment penalties on all floating rate term loans sanction to individual borrowers.
- 1.7 On-boarding to disbursement of loan procedure will be easy to the borrowers & time efficient.

Loan Appraisal/ Disbursement of loans - terms & conditions:

- 2.1 Field staff shall explain all the features, benefits, terms/conditions and pricing of our services including all fees, charges and interest rate on an annual declining basis, during Compulsory Group Training (CGT) and loan appraisal process.
- 2.2 The Company will convey in writing to the borrower in the vernacular language as understood by the borrower by means of Loan Card and Loan Agreement, 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.
- 2.3 The Company shall provide a copy of the loan agreement preferably in vernacular language along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

- 2.4 Company shall mention the penal interest charged for late repayment and loan prepayment charges in bold in the loan agreement for Individual Loans wherever applicable. However, late repayment and prepayment charges are not applicable for group loans.
- 2.5 The KYC guidelines of RBI will be complied with and due diligence will be carried out to ensure the repayment capacity of the borrower.

Disbursement of loans including changes in terms and conditions

- 1.1 We will give notice to the borrower in the vernacular language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc.
- 1.2 We will also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement.
- 1.3 The decision to recall / accelerate payment or performance under the agreement should be in consonance with the loan agreement.
- 1.4 We 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 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 NBFCs are entitled to retain the securities till the relevant claim is settled / paid.
- 1.5 All sanctions/disbursements of loans should be done only at a central location i.e. branch premises - and more than one individual will be involved in this function. In addition, there should be close supervision of the disbursement function.
- 1.6 Adequate steps shall 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.
- 1.7 The effective rate of interest charged on each loan products, fees and other charges should be prominently displayed in all branches, regional & head office and in the literature issued (in vernacular language) and on website.
- 1.8 A statement shall be made in vernacular language and displayed at ACFL premises and in loan cards articulating commitment to transparency and fair lending practices.

Disclosure in Loan Agreement / Loan Card:

4.1 The loan agreement will be in vernacular language as understood by the borrower along with the copy of all enclosures, if any.

4.2 The following shall be disclosed in the loan agreement:

4.2.1 All the terms and condition of loan,

4.2.2 Amount of the Loan

4.2.3 The pricing of the loan i.e. the annual interest rate, processing fee and insurance premium,

4.2.4 That there will be no penalty charged on delayed payment.

4.2.5 That no security deposit / margin is being collected from the borrower,

4.3 That the borrower cannot be a member of more than one SHG / JLG,

4.4 That the moratorium between the grant of the loan and the due date of the repayment of the first instalment shall be in accordance with the provisions of Non- Banking Financial Company Micro Finance Institutions (Reserve Bank) Directions.

4.5 An assurance that the privacy of the borrower data will be respected.

4.6 A copy of the Loan Agreement along with its enclosures shall be given to the borrower.

4.7 The loan card shall contain the following details:

4.7.1 Information which adequately identifies the borrower,

4.7.2 Key Facts Statement (KFS)

4.7.3 All other terms and conditions attached to the loan

4.7.4 Acknowledgements by the Company of all repayments including instalments received and the final discharge; and

4.7.5 Details of the grievance redressal system, including the name and contact number of the nodal officer of the Company.

4.7.6 All entries in the loan card should be in a language understood by the borrower

4.7.7 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.

Non-Coercive Methods of Recovery:

7.4.1 Each RE 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.

7.4.2 Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the RE. 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.

7.4.3 RE 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

7.4.4 Each RE 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 disbursement.

PART III - Other Operational Guidelines:

1. ACFL will adopt an interest rate model following the guidelines of Reserve Bank of India.
2. A senior officer of the Company shall be designated / assigned for ensuring compliance of the above Fair Practices Code. A system of internal control including audit and periodic inspection will be put in place to ensure the same.

This Fair Practice Code shall be displayed at the all the branches in the local language.
