

Fair Practice Code

Pahal Financial Services Pvt. Ltd. (hereinafter known as “PFSP”) has been extending Microfinance facilities to the poor & low-income households. The company also extends individual loans and secured loans for business expansion. The organization is governed by a balanced team of learned, experienced practitioners and professionals. To bring total transparency in the working of the Company the following “Code of Fair Practices” are adopted by the Board.

Loan Applications and processing

All communication to the borrower shall be in the vernacular language or a language as understood by the borrower.

PFSP shall ensure KYC guidelines stipulated by the RBI is complied with and adequate due diligence is carried out on the customer before extending the loan.

The minimum, maximum and average interest rates to be charged on MFI loans shall be prominently displayed on Company’s website, all its branch premises, and in other literature issued by the Company.

Loan application shall include necessary information which affects the interest of the borrower so that a meaningful comparison with the terms and conditions offered by other lenders can be made and an informed decision can be taken by the borrower. The loan application form shall indicate the documents required to be submitted with the loan proposal.

PFSP shall ensure to give an acknowledgment for receipt of all loan applications. The indicative time frame within which loan proposals will be processed (which may differ based on the loan category) would be indicated to the prospective borrowers.

Loan Appraisal and terms/ conditions

PFSP 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 annualized rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on the record

PFSP shall not levy any penalty on prepayment of loan at anytime. Penal charges in case of delayed payments (if any) and shall not stipulate any Security Deposit/ Margin (MFI Loans).

PFSP will ensure that the loan agreement is fully read and explained in vernacular language to the borrower before or at the time of disbursement. A copy of the agreement will be provided on request from the borrowers.

Disbursement of Loans including changes in terms and conditions

PFSP shall 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. PFSP shall ensure that changes in interest rates and charges are effected only prospectively.

PFSP will release all securities on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim PFSP 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 PFSP is entitled to retain the securities till the relevant claim is settled/ paid (Not applicable for MFI loans)

General

PFSP shall refrain from interference in the affairs of the borrower/ member except for the purposes provided in the terms and conditions of the loan agreement (unless the new information, not earlier disclosed by the borrower, has come to our notice).

In the matter of recovery of loans, PFSP shall not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc. PFSP shall ensure that the staff is adequately trained to deal with the customers in an appropriate manner.

Pahal's field staff shall not call on the borrowers for overdue recovery before 9 am and after 6 pm and shall not visit their residence or workplace on days of festival, marriage or any mourning occasions, for the purpose of recovery.

PFSP has board approved Grievance Redressal mechanism within the organization. The grievance redressal mechanism shall be made prominently displayed at all offices and on the website of PFSP.

PFSP shall always adopt interest rate model considering relevant factors such as cost of borrowings, risk premium and fixed margin plus processing fees fixed by RBI duly approved from Board. PFSP shall disclose rate of interest to the borrower in the application form, agreement and in the sanction letter.

The interest rate to be charged on annualized basis, the processing fee shall not exceed the RBI prescribed limits and the insurance premium applicable for member and spouse/co-borrower loan cover.

Rate of Interest and other components of the loan shall also be made prominently displayed at all offices and on the website of the company and will be updated whenever there is a change in rate of interest.

PFSP has a built in re-possession clause in the contract/loan agreement with the borrower which is legally enforceable. To ensure transparency, the terms and conditions of the contract/loan agreement shall also contain provisions regarding:

- (a) notice period before taking possession
- (b) circumstances under which the notice period can be waived
- (c) the procedure for taking possession of the security
- (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property

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(e) the procedure for giving repossession to the borrower

(f) the procedure for sale / auction of the property

A copy of such terms and conditions shall be made available at the request of borrower (Applicable for other loans not for MFI Loans).

PF SPL shall bring out a statement in local language articulating our commitment to transparency and Fair Lending Practices and the same shall be displayed in the office premises and loan card.

Field staff shall be trained to make necessary enquiries with regard to existing debt to the borrowers.

Training 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.

The effective rate of interest charged and the grievance redressal system set up by PF SPL shall be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website. It will contain Grievance Redressal Officer details with contact details, Officer-in-charge of RBI details with contact number If the complaint / dispute is not redressed within a period of one month.

A declaration that PF SPL will be accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made available in the loan agreement and also in the Fair Practice Code (in local languages at all office premises and web site).

Loan products with salient features will also be displayed at office premises and website.

PF SPL shall comply with KYC guidelines of RBI and the due diligence will be carried out to ensure the repayment capacity of the borrowers.

PF SPL shall sanction and disburse all loans from its central location (Branch Offices or Head Office) and more than one person would be involved in this function. The disbursement function would be closely supervised.

Adequate steps will 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

Collection Process

Joint Liability Group Loan:

Pahal shall observe NBFC-MFIs (Reserve Bank) Directions, 2011 with respect to recovery of loan which shall be made only at central designated place.

Pahal's field staff shall not call on the borrowers for overdue recovery before 9 am and after 6 pm and shall not visit their residence or workplace on days of festival, marriage or any mourning occasions, for the purpose of recovery.

Other Loans:

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Collection shall be done through ECS and in case of dishonor of ECS the collection will be done in cash from the client at his/her available place and time.

PFSP shall ensure that the procedure for application of loan is not cumbersome and loan disbursements are made as per pre-determined time schedule driven through the well-defined process.

Disclosures in Loan Agreement / Loan Card

PFSP shall have a Board approved, standard loan agreement preferably in vernacular language.

In the loan agreement following shall be disclosed: *certain conditions are not applicable for other loans*

- All the terms and conditions of the loan
- Pricing of loan involving only three components viz. Interest Charge, processing charge and insurance premium (including administrative charges in respect thereof)
- No Security Deposit / Margin is being collected from the borrower by itself or by third parties as a condition to avail the loan
- Moratorium between the grant of the loan and the due date of repayment of the first installment
- The privacy of borrower data will be respected and that no data will be shared with the third party without taking customer consent unless required by regulation
- Grant of loan is not linked to any other product/services offered by the company or third party
- Grievance redressal mechanism
- Commitment to transparency and fair lending practices as prescribed by RBI
- Company will be accountable for preventing inappropriate employee behavior and timely grievance redressal

PFSP shall issue loan card after disbursement of the loan containing following information:

- Borrower's identity and the relevant information.
- Simplified fact sheet on pricing as recommended by RBI.
- All the entries in the loan card shall be in the local language.
- Annualized rate of interest charged, processing fees, Insurance etc.
- Details of Non-credit products issued shall be with full consent of the borrowers and fees Structure
- Salient terms and conditions of the loan.
- Our acknowledgements for the repayments including installments received and final discharged.
- Grievance Redressal System including the Toll – free number, email id and name of the nodal officer apart from Branch address and telephone number of the branch.
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- All entries in the loan card shall be in the vernacular language.

Non-Coercive Methods of Recovery

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PFSP shall collect all its recoveries at the central designated place namely Centre Meetings. Only in the case borrower fails to attend the Centre Meeting on 2 or more occasions and also fails to repay, its field staff shall visit to the place of residence or place work of the borrower for recovery.

PFSP shall ensure that a uniform systems and procedure approved by Board as a policy in the matter of staff recruitment, training and supervision. PFSP policy shall be to train field staff through training programs to inculcate appropriate behavior towards borrowers without adopting any abusive or coercive debt collection / recovery practices.

PFSP shall have a policy of appraisal of field staff, where the compliance of code of conduct and customer satisfaction shall be the parameters for appropriate compensation.

PFSP shall initiate necessary disciplinary action against staff who abuses any of the items under Code of conduct.

PFSP shall not engage/outsource any recovery agents for recovery.

Internal Control System

The Company shall incorporate verification and checks for compliance of all the practices through the specific designated officials in the hierarchy and through effective internal audit/ periodical inspections.

Company's management will ensure to submit an annual report to its Board on review of compliance to Fair Practices Code and functioning of grievance redressal system at various levels of management.

Internal audit shall review the implementation of Fair Practices Code and effectiveness of grievance redressal system during branch audits.

The functioning of grievance redressal system shall be reviewed by the internal audit at HO.

Internal audit shall furnish feedback on the same to the Audit Committee at Quarterly intervals.