



# **Utkarsh Small Finance Bank**

**FAIR LENDING PRACTICES CODE (FLPC)**

Version - 2.0, September 2024

Document Control			
Code Name		Fair Lending Practice Code	
Version		2.0	
Owner Department	Code created under (Regulator's Name)	Reference to Regulator's Guidelines	Code Creation Date
Micro Banking	RBI	RBI Guideline dated April 29, 2024, on "Fair Practices Code for Lenders - Charging of Interest"	April 01, 2022
Document Version History			
Version Number	Date of Change/ Review	Change Approver	Description of change
1.0	April 1, 2022	RMCB → Board	New
2.0	September 20, 2022	RMCB → Board	Revised with certain changes in charging of interest.

**Objective:**

The **Fair Lending Practices Code (FLPC)** of Utkarsh Small Finance Bank Ltd. is a voluntary code duly approved by the Board and adopted by the Bank to ensure fairness and transparency while dealing with loan proposals from customers in India. It aims to facilitate effective and transparent interaction between the Bank and its borrowing customers. It lays down procedures to ensure clarity, transparency, timeliness, and responsiveness in Bank's relationship with the borrowing customers at all stages of the loan cycle – sales/marketing, loan application/request, processing, sanction, disbursement, monitoring, and administration.

**Applicability:**

The Code is applicable to loans offered by the Bank to all its customers including individuals, joint borrowers, Proprietorship firms, Partnership firms, Private and Public Limited Companies, Trusts and PSUs. The Code is also applicable to both fund- based and non- fund-based limits granted to borrowers.

Key Commitments of the Bank are given below: -

**The Bank declares and undertakes -****A. Loan Application**

1. To ensure that for all loan application forms received in respect of priority sector advances, comprehensive information about applicable fees/ charges, fees refundable in case of non-acceptance of application, prepayment options and other relevant information affecting the interest of the customer, will be provided to enable the customer to take an informed decision.
2. To furnish general information about rates of interest, details of processing fees and other charges, penal rates, and any other information, that affects the interest of the borrowers, to enable them to make a reasonable comparison with the prevailing charges of other banks and take an informed decision.

**B. Loan Processing**

1. To provide customers with comprehensive information and advice regarding the range of products available with the Bank to suit their needs.
2. To communicate, not later than 15 days of receipt of loan application, additional information/ documents required to be submitted by the customers for further processing of their loan application.
3. To provide acknowledgement for the filled-in loan application form/ request, received from customers irrespective of loan amount requested, and to provide an indicative timeframe within which the Bank's decision will be conveyed.
4. To provide efficient, courteous, and professional services to all customers while dealing with their loan proposals and not to discriminate on the basis of religion, sex, caste or creed.

**C. Loan Appraisal and Terms & Conditions**

1. To ensure all fair and proper assessment of all loan applications and not to use margin/security stipulation as a substitute for due diligence on credit worthiness of the customer.
2. To ensure that stipulation of margin, security etc. are in accordance with the applicable/ approved guidelines governing the scheme/facilities.
3. To ensure that all loan applications are assessed/ appraised within a reasonable period of time and the Bank's decision (sanction/ rejection) is conveyed within the timeframe, as published/ communicated by the Bank.
4. To communicate to the customers about rejection of their loan proposals, wherever applicable, together with reasons for the same, irrespective of loan amount requested.
5. To issue a letter of sanction, duly signed by an authorized signatory of the Bank, detailing all terms, conditions and covenants of the loan and obtain the customer's signature, thereon acknowledgement as a token of acceptance of the terms and conditions of the loan.
6. To discuss, inform and comprehensively explain to all customers the applicable terms and conditions such as margin, primary and collateral security, interest rates (fixed/floating), service charges etc.

#### **D, Disbursement of Loans**

1. To promptly arrange for disbursement of loans immediately upon compliance of all the terms and conditions of sanction & execution of relevant documents.

#### **E. Post Disbursement and Monitoring & Recovery**

1. To provide customers with a list of documents executed by them against receipt of request from customer.
2. To process requests received from customers for premature closure of their loan by way of borrowing from another Bank/financial institution and communicate Bank's consent or otherwise, within 21 days from the date of receipt of request.
3. To ensure periodic information is provided to customers about the status of their loan account by providing statements of accounts.
4. To seek and obtain necessary information from the customers for monitoring the conduct of their accounts during the tenure of the loan/advance.
5. To ensure that the Bank exercises the right to enforce security for recovery of their dues in case of default or non-adherence to terms of sanction, subject to observing the normal procedures in this regard.
6. To refrain from interfering in the affairs of the customer except to the extent as provided in the terms and conditions of sanction (unless new information, not disclosed earlier by the customer, has come to the notice of the Bank).
7. To promptly communicate any decision of the Bank to recall the loan or accelerate the

payment etc. giving the customer 15 days' time for repaying/accelerating repayment of loan.

8. To ensure that all securities be released on receiving full repayment of the loan from the borrower, subject to any legitimate right of lien for any other claim the Bank may have against the borrower, in which case suitable notice would be issued to the customer with full details about the residual claims and the documents under which the Bank is entitled to retain the securities till the relevant claims are settled.
9. To ensure that the customers are not unduly harassed during recovery/collection of the loan dues.

## **F. Fair Lending Practices Code for Microfinance:**

### **1.Assessment of Household Income:**

The bank has a board-approved policy for assessment of household income and shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs

### **2.Limit on Loan Repayment Obligations of a Household:**

Outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household shall be maximum 50 per cent of the monthly household income for loans under Microfinance category.

If monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with for loans under Microfinance category. However, the Fixed Obligation to Income Ratio (FOIR) for loans under non-Microfinance category (namely MBIL, Utkarsh Jyoti) to customers having household income above ₹ 3 lakh is 60 per cent.

### **3.Submission of Data to CICS:**

The Bank shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness.

### **4.Pricing of Loans**

The bank shall have board-approved policy regarding pricing of microfinance loans which shall, inter alia, cover:

- (i) Pricing related information shall be provided to prospective borrower in a standardized simplified factsheet
- (ii) Any fees to be charged to the microfinance borrower by the bank and/ or its partner/ agent shall be explicitly disclosed in the factsheet
- (iii) 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
- (iv) 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.

## **5. Charging of Interest for the Bank**

As per the RBI guideline dated April 29, 2024, on Fair Practices Code for Lenders, Charging of Interest, the Banks are not allowed to charge to the customers as given below:

- (i) Bank must not charge interest from the date of sanction of loan or date of execution of loan agreement but from the date of actual disbursement of the funds to the customer. Similarly, in the case of loans being disbursed by cheque, the Bank must not charge interest from the date of the cheque, but from the date when the cheque was handed over to the customer several days later.
- (ii) In the case of disbursal or repayment of loans during the month, Bank must not charge interest for the entire month, rather it must charge interest only for the period for which the loan was outstanding.

The Bank must not charge interest on those loans where one or more instalments has been collected in advance by the Bank still it is reckoning the full loan amount for charging interest.

## **5.Provision for Borrowers: Loan Card**

The Bank shall have a standard form of loan agreement for microfinance loans in a language understood by the borrower. Loan card to the borrower shall incorporate the following:

- (i) Information which adequately identifies the borrower.
- (ii) Simplified factsheet on pricing.
- (iii) All other terms and conditions attached to the loan.
- (iv) Acknowledgements by the RE of all repayments including instalments received and the final discharge; and
- (v) Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank
- (vi) All entries in the loan card should be in a language understood by the borrower
- (vii) 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.Training to Staff & Borrower:**

- The Bank shall have board-approved policy regarding the conduct of employees and system for their recruitment, training, and monitoring and inter alia, lay down minimum qualifications for the staff and shall provide necessary training tools to deal with the customers.
- Training, if any, offered to the borrowers shall be free of cost

## **7.Outsourced Activities:**

The Bank shall be accountable for inappropriate behavior by its employees or employees of the outsourced agency and shall provide timely grievance redressal.

## **8.Recovery of Loans:**

- The Bank shall put in place a mechanism for the identification of the borrowers facing repayment-related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.

- Recovery shall 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.
- The Bank or its agent shall not engage in any harsh methods towards recovery.
- Following practice is **strictly prohibited**:
  - (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) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation
  - (v) Misleading the borrower about the extent of the debt or the consequences of non-repayment
- The Bank 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

#### **9.Engagement of Recovery Agents:**

- The Bank shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process.
- To ensure due notice and appropriate authorization, the Bank shall provide the details of recovery agents to the borrower while initiating the process of recovery.
- The agent shall also carry a copy of the notice and the authorization letter from the Bank along with the identity card issued to him by the Bank or the agency.
- Where the recovery agency is changed by the Bank during the recovery process, in addition to the Bank notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card.

#### **G. Others**

1. To be transparent and honest in advertisement and marketing of loan products.
2. To put in place a procedure for grievance redressal which would ensure that all disputes arising out of decisions of a Bank's official are reviewed and disposed of as per norms.