

# ***Policy on Microfinance***



**Micro & Rural Banking Department**

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## **Preamble**

Banks are the largest contributor to country's Microfinance sector. This segment helps to address geographic disparities through dispersal of entrepreneurial activities across low-income strata of the population. They are the nurseries for entrepreneurship, often driven by individual creativity and innovation. Popularising Microfinance is important for the national objectives of growth with equity and inclusion.

Reserve Bank of India while issuing Master Direction RBI/DOR/2021-22/89 Dor.FIN.REC.95/03.10.038/2021-22 dated 14-03-2022 has advised Banks to put in place a proper Policy duly approved by the Board covering the methodologies & measurements for monitoring and control of Microfinance segment. Detailed credit delivery process should be articulated, covering credit policy and procedures to analyse, manage and control risks, rating standards and benchmarks, delegation of credit approving powers, pricing of loans, regulatory/legal compliance, setting up of a grievances redressal structure etc.

## **Objectives of the Policy**

The broad objectives of the Microfinance Policy of the Bank are outlined hereunder.

1. To build and sustain a high-quality portfolio well diversified in terms of clients, markets and products with an acceptable risk adjusted yield.
2. To have a strong risk management system and ensure close monitoring of the credit portfolio.
3. To promote inclusive growth through micro finance.
4. To lay down guidelines for assessment of credit to microfinance segment.
5. To make available adequate and hassle-free credit facilities to micro enterprises and individuals in a timely manner.
6. To ensure pricing aspects pertaining to microfinance loans are in place in the policy.
7. To comply with RBI/Government of India guidelines and instructions.

## **Scope of the Policy**

The policy would govern all kind of loan exposures in the form of Individual lending where household income criteria is reckoned within the norms prescribed under the regulatory framework of RBI. The policy may also be read in concurrence with the existing RBI guidelines, directives, circulars, and instructions.

## **Introduction to Regulatory framework**

The Reserve Bank of India ("RBI") vide Master Direction **RBI/DOR/2021-22/89 DoR.FIN.REC.95/03.10.038/2021-22** (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022 and updated as on 10.10.2024, deregulated the interest rates in the segment and harmonized micro-lending norms across banks and non-bank lenders effective from April 01, 2022. The current regulatory framework has been put in place with the objective of making credit available to low-income households in a transparent manner while ensuring borrowers' protection from any unfair practices adopted by the lenders. The emerging dynamics in the microfinance sector as well as the concerns of customer protection call for a review of the regulations so that all the regulated entities (RES) engaged in microfinance pursue the goal of customer protection within a well-calibrated and harmonized set-up.

### **Key proposals of the Framework are enumerated below:**

- A common definition of microfinance loans for all regulated entities.
- Capping the outflow on account of repayment of loan obligations of a household to a percentage of the household income.
- A Board approved policy for household income assessment.
- No pre-payment penalty; no requirement of collateral; and greater flexibility of repayment frequency for all microfinance loans.
- Introduction of a standard Key Fact Statement on pricing and entire charges of microfinance loans for transparency as per regulatory structure.

### **Definition of Microfinance Loan**

- A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife, and their unmarried children.
- All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursement (loans to individuals processed either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.
- A due-diligence check through branches and BCs on the income level of the applicants shall be utilised for processing the eligible loan applications under micro finance category. Income – expenditure assessment format as prescribed by RBI shall be used for assessing the income levels of prospective clients. Necessary controls shall be built in the Loan Origination Systems (LOS) presently used and proposed in the Bank to capture the income level. Income level declared below Rs. 3.00 Lakhs per annum and the loan applications which satisfies other criteria of micro finance lending shall be reported as micro finance. Obtention of requisite declaration from the applicants on their income strata (up to Rs. 3.00 Lakhs only or any other threshold as prescribed by RBI from time to time) shall also be ensured by way of scheme guidelines and SOP.
- 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.
- Loans backed by hypothecation of any security shall not be treated as microfinance loans.

- Bank 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. Such reporting of income shall be carried out through the designated support functions of the Bank (presently CAD) upon sanction and disbursement of loan application. The responsibility of providing necessary MIS and reporting of CIC shall be with respective Business and Support Departments respectively as decided by the Bank from time to time. An appropriate SOP in this regard will be put in place after due consultation with CAD.

### **Assessment of Household Income**

In the Credit Assessment Framework, data points from different components are integrated to provide a Credit Worthiness and maximum repayment outgo.

#### **1. Income & Expenditure Assessment**

Under the Income & Expenditure assessment, parameters like the number of earning members, multiple income sources, regularity in cash inflow are given importance. Based on observations, households that have multiple income sources and regularity in cash inflow can manage loan repayments easily. The obtention of client information and household income and expenditure assessment to establish the eligibility of the applicant for a micro finance loan shall be the responsibility of business unit which is sourcing the micro finance business from the field. The Branch/BC/Relationship Vertical shall obtain the customer info in the 'income assessment format' annexed with this policy prepared in line with RBI framework apart from the loan application. Once the income threshold is within the ceiling of Rs. 3.00 Lakh prescribed by RBI, the loan application shall follow the underwriting modalities for sanction and disbursal.

#### **I. Credit History & Indebtedness Assessment**

This is an important component of the framework where various data points from Credit Bureau Report are integrated to assist in risk profiling and credit worthiness of the Borrower. The parameters used are:

- Number of Institution where loan is outstanding- The details of existing loans shall be obtained from the prospective client by way of declaration. Perusal of CIC reports and local enquiries shall also be undertaken to understand the total liability and monthly outgo towards repayment of loans. Also, Bank shall provide timely and accurate data to CICs on the loans sanctioned under the micro finance category. Bank shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.
- Current monthly repayment outgo to income percentage (%) – Loan obligations and monthly outgo shall be input in the assessment format (annexed) in order to identify the monthly outgo to income percentage.
- Proposed monthly repayment outgo to income percentage (%) – The proposed outgo to income percentage shall be calculated by the business team and the entire monthly outgo shall not exceed 50% of the total income of the household to consider the application under a micro finance category.

Appropriate assessment and controls/guidance will be ensured by MRBD for income and expenditure assessment. Since the credit assessment needs to be made on household basis, Credit Bureau check of family members, which consist of husband, spouse and unmarried children with active income sources may also be made under scrutiny.

## II. Determining Maximum Repayment Outgo

With the objective of preventing over indebtedness and to reduce risk, the model suggests lending decision should arrive by factoring the below aspects.

- Total limit on the outflows on account of repayments of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 per cent of the monthly household income.
- The computation of loan repayment obligations shall take in to 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 (including existing microfinance and non-microfinance loans) as well as the loan under consideration.
- 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.
- Assessment of data relates to existing credit limits and total indebtedness of a household can be primarily based on Credit Bureau responses. Besides, Bank shall also ascertain the compliance with the level of indebtedness from other sources such as declaration from the borrowers, their bank account statements.
- In case of credit facilities not having an EMI feature (including Bullet Repayment Loans) shall also to be treated for arriving a total monthly repayment obligation of the household by distributing the annualized repayment obligations over twelve months to estimate monthly outgo of the household towards the repayment of the debt.
- Repayment obligations in existing loans sanctioned against liquid securities like Gold Loan, Advance against deposits etc. are also included while assessing the total monthly repayment obligation of that household.
- Expected income from the asset / activity financed by a microfinance loan shall not be included for estimation of household income.
- A version of credit assessment framework along with indicative parameters for household income assessment is provided in **Annexure-I**.

## **Pricing of Loans**

As the interest rate cap has been removed by RBI, now the onus of fixing the interest rate in a responsible manner keeping in mind the double objectives of client centricity and business sustainability lies with the Bank.

- **Components of interest rate pricing**

As per recent RBI guidelines, components of interest rate pricing can include “Cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters”. As per industry practices in interest rate pricing, common components of interest rate pricing are.

- i. Finance Cost
- ii. Operational expenses (Op-ex)
- iii. Loan loss
- iv. Tenor premium
- v. Risk premium (segmentation based on geography, client profile, products etc)
- vi. Reasonable return on capital employed.  
(\*Loan loss can also be clubbed with risk premium if required)

A pricing formula can be arrived based on the mentioned parameters.

**Interest Rate= Finance Cost + Operational expenses+ Loan loss + Risk premium+ Tenor premium + ROE**

- Based on the above parameters, interest rate to the final borrowers shall be in the range of 12.00% to 28.00% per annum, applicable across lending channels i.e. Bank Branches/ Business Correspondents/ Fintech arrangements. Nature of interest rate i.e., fixed/ floating will be decided in line with the arrangement entered.
- A product level pricing along with its calculation matrix should be released by Business Head- Micro & Rural Banking Dept. in concurrence with Corporate Planning Dept at the time of scheme publication.
- Such pricing will be subject to review in every quarter and should intimate to stakeholders including borrowers if any changes.
- Any change in the interest rate or any other charge shall be informed to the borrower in writing well in advance and these changes shall be effective only prospectively.
- An illustration is provided in Annex II on the delineation and maximum cap on each component.

### **Determining cap on other charges**

Processing Fee	Based on the nature of credit facilities and in line with partnership arrangements with external entities, suitable rate of Processing Fee can be decided by Head- Micro & Rural Banking Dept. Such rate shall be a one-time cost on the prospective customer with a maximum up to 4% of disbursed loan. Wherever Board Approvals are required to be obtained for revision of charges/fees, such fees/charges shall be introduced only after Board approvals.
Documentation charges	Applicable based on the nature of the credit facility and the maximum cap up to Rs.500/- per loan.
Penal charges for late payment	<ul style="list-style-type: none"><li>• As per Bank approved policy on penal charges.</li><li>• Penal charges shall be applied only on the overdue amount and not on the entire loan amount.</li></ul>
Premium for Credit Linked Insurance	<ul style="list-style-type: none"><li>• Clients shall be offered with the provision of credit linked insurance along with microfinance loans to de-risk any unforeseen event in the loan tenure.</li><li>• Premium amount of credit linked insurance shall be specifically mentioned in the KFS issued to the customers.</li><li>• The insurance charges included in the KFS are only for credit linked insurance product as these charges are linked to microfinance loan. A borrower would not have incurred these charges, if he had not taken the loan. Disclosure related to other non-credit products, if any should be provided separately from the KFS.</li></ul>
Prepayment penalty	There shall be no pre-payment penalty on microfinance loans.

- All the charges applicable to the micro finance loan availed by the customer shall be explicitly mentioned in the KFS.
- Bank shall display the minimum, maximum and average interest rates charged to the micro finance loans in all its offices, in the literature (information booklets/pamphlets) issued in connection with micro finance loans and in the website.
- PSL classification of loans satisfying the criteria prescribed in Master Direction on Regulatory Framework for Microfinance Loans Directions, dated March 14, 2022, shall be governed by guidelines on Priority Sector Lending issued by RBI from time to time.
- No loan related or ad-hoc charges shall be applicable to micro finance loans sanctioned up to Rs. 25,000/-.



## **Key Fact Statement**

The Key fact statement shall be issued to all borrowers (irrespective of the type of loan under Microfinance) with constitution 'Individuals. The format of KFS is revised based on the latest RBI guidelines and a standardised format is for KFS. For all accounts sanctioned/ renewed w.e.f 01/10/2024, the revised KFS shall be applicable. The KFS must include the following.

- Annual Percentage Rate (APR) which is the total annual cost of credit, including interest rate and other charges.
- Any fees, charges etc which are not mentioned in the KFS, cannot be charged by the Bank to borrowers.
- KFS shall be provided with a unique proposal number and shall have a validity period of at least three working days for loans having tenor of seven days or more, and a validity period of one working day for loans having tenor of less than seven days.
- The KFS shall also include a computation sheet of annual percentage rate (APR), and the amortisation schedule of the loan over the loan tenor. APR will include all charges which are levied by the Bank. APR Computation and Amortisation Schedule as per RBI guidelines are provided as annexures.
- The KFS shall also be included as a summary box to be exhibited as part of the loan agreement.

## Format of KFS



Microfinance Loan /Br. /FEDXXXXXXXX/202...-202...

Date: XX/XX/XXXX

### Key Facts Statement (effective from 01/10/2024)

#### Part 1 (Interest rate and fees/charges)

1	Loan proposal/ account No.		Type of Loan				
2	Sanctioned Loan amount (in Rupees)						
3	Disbursal schedule (i) Disbursement in stages or 100% upfront. (ii) If it is stage wise, mention the clause of loan agreement having relevant details						
4	Loan term (year/months/days)						
5	Instalment details						
Type of instalments		Number of EPIs	EPI (₹)	Commencement of repayment, post sanction			
6	Interest rate (%) and type (fixed or floating or hybrid)						
7	Additional Information in case of Floating rate of interest						
Reference Benchmark	Benchmark rate (%) (B)	Spread (%) (S)	Final rate (%) $R = (B) + (S)$	Reset periodicity <sup>1</sup> (Months)		Impact of change in the reference benchmark (for 25 bps change in 'R', change in: <sup>2</sup> )	
				B	S	EPI (₹)	No. of EPIs
8	Fee/ Charges <sup>3</sup>						
		Payable to the RE (A)		Payable to a third party through RE (B)			
		One-time/ Recurring	Amount (in	One-	Amount (in ₹) or Percentage		

			₹) or Percentage (%) as applicable <sup>4</sup>	time/Recurring	(%) as applicable <sup>5</sup>
(i)	Processing fees				
(ii)	Insurance charges				
(iii)	Valuation fees				
(iv)	Any other (please specify)				
<b>9</b>	<b>Annual Percentage Rate APR) (%)<sup>5</sup></b>				
<b>10</b>	<b>Details of Contingent Charges (in ₹ or %, as applicable)</b>				
(i)	Penal charges, if any, in case of delayed payment				
(ii)	Other penal charges, if any				
(iii)	Foreclosure charges, if applicable				
(iv)	Charges for switching of loans from floating to fixed rate and vice versa				
(v)	Any other charges (please specify)				

**Part 2 (Other qualitative information)**

1	Clause of Loan agreement relating to engagement of recovery agents	
2	Clause of Loan agreement which details grievance redressal mechanism	
3	Phone number and email id of the nodal grievance redressal officer <sup>6</sup>	
4	Whether the loan is, or in future maybe, subject to transfer to other REs or securitisation (Yes/ No)	
5	In case of lending under collaborative lending arrangements (e.g., co-lending/ outsourcing), following additional details may be furnished:	
	Name of the originating RE, along with its funding proportion	Blended rate of interest
	Name of the partner RE along with its proportion of funding	

6	In case of digital loans, following specific disclosures may be furnished:	
(i)	Cooling off/look-up period, in terms of RE's board approved policy, during which borrower shall not be charged any penalty on prepayment of loan	
(ii)	Details of LSP acting as recovery agent and authorized to approach the borrower	

#### **Fair Practice Code in conducting Microfinance.**

As directed by the Reserve Bank of India, from time to time through its circulars, the Bank has adopted Fair Practice Code for retail microfinance borrowers as approved by the Board of Directors. The same shall be displayed in the branches and website of the Bank in vernacular languages. The salient features of the same are:

Applications for Loan	<ul style="list-style-type: none"> <li>a) In the loan application form, the Bank shall provide comprehensive information including information about fees and charges, if any, payable for processing and amount of such fees refundable in case of non-acceptance of loan application, prepayment options and other matters which affects the interest of the borrowers, irrespective of the amount of loan sought by them.</li> <li>b) The application forms and agreements will be provided in the language understood by the borrower.</li> </ul>
Processing	<ul style="list-style-type: none"> <li>a) The Bank/ Its authorised representatives shall provide acknowledgement for receipt of all loan applications indicating the time frame within which the application will be disposed of.</li> <li>b) The Bank/ Its authorised representatives shall verify the loan application and if additional details / documents are required; these will be sought from the applicant.</li> <li>c) The Bank will process the application without delay. In case the application is turned down, the Bank/ Its authorised representatives will convey the reasons for rejection within one month via physical or digital communication to the applicant.</li> </ul>
Loan Appraisal and Terms and Conditions	<ul style="list-style-type: none"> <li>a) The sanctioning authority will be expected to ensure proper assessment of the credit application as per the extant instructions and credit policy of the bank.</li> <li>b) All the terms and conditions and other caveats will be duly communicated by the Bank to the borrower.</li> <li>c) The bank/ Its authorised representatives would convey to the borrower/guarantor the credit limit along with the terms and conditions thereof in the language understood by the borrower and obtain the borrower's/guarantor's acceptance</li> </ul>

	<p>of these terms and conditions given with his/her full knowledge on record.</p> <p>d) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement would be shared physically/ digitally to the borrower in the language understood by the borrower.</p> <p>e) The sanction letter / loan agreement will clearly state that the credit facilities will be extended solely at the discretion of the Bank.</p> <p>f) Any fees/charges payable by the borrower to the Bank and/ or its partner/ agent shall be explicitly disclosed in the KFS. The borrower shall not be charged any amount which is not explicitly mentioned in the KFS.</p> <p>g) 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.</p> <p>h) Bank shall provide a loan card to the borrower in the language understood by them which shall incorporate the following:</p> <ul style="list-style-type: none"> <li>• Information which adequately identifies the borrower.</li> <li>• KFS on pricing and charges associated with the Loan.</li> <li>• All other terms and conditions attached to the loan.</li> <li>• Acknowledgements of all repayments including instalments received and the final discharge.</li> <li>• Details of the grievance redressal system, including the name and contact number of the respective officials of the Bank.</li> </ul>
Disbursement of loans including changes in Terms and Conditions	<p>a) The Bank would ensure timely disbursement of loans sanctioned in conformity of terms and conditions governing such sanction.</p> <p>b) Any changes in the terms and conditions of the sanction such as interest and charges will be notified to the borrower before effecting the changes.</p> <p>c) Any changes in interest rate and charges will be affected only prospectively after giving due notice to the borrower.</p> <p>d) While fixing repayment schedule, a provision of flexible repayment periodicity shall be fixed as agreed with the borrower/s.</p>
Post Disbursement Supervision	<p>a) The post disbursement supervision, if any, will be stipulated at the time of issue of the sanction letter. The sanction letter would also mention whether the Bank or the borrower will bear the cost of supervision.</p> <p>b) Before taking a decision to recall / accelerate payment or performance under the agreement, the Bank will give notice to borrowers, as specified in loan agreement or a reasonable period, if no such condition exists in the loan agreement.</p> <p>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.</p>

Penal Charges	<p>a) The penal charges applicable to Microfinance as covered in this Policy are subject to the overarching 'Policy on Penal Charges in Loan Accounts'.</p> <p>b) Banks may levy penal charges in loan accounts for non-compliance of material terms and conditions of loan contract by the borrower.</p> <p>c) The quantum and reason for penal charges shall be clearly disclosed by the Bank to the customers in the loan agreement and Most Important Terms &amp; Conditions (MITC)/ Key Fact Statement (KFS) as applicable.</p> <p>d) Penal charges shall not be capitalized. In other words, no interest shall be applied/ computed on such penal charges.</p> <p>e) The penal charges will be collected only for the actual number of days for which the account was in default / has arrears/ is overdrawn (or) for the actual number of days for which the material terms and conditions remained non-complied.</p>
Others	<p>a) The Bank will not interfere in the affairs of the borrowers except for conditions stipulated in the terms and conditions of the loan sanction documents.</p> <p>b) All non-credit products (both financial products such as investment products, insurance products, etc. as well as non-financial products should be provided only with the explicit consent of the borrower, and it should be ensured that there is no direct or indirect linkage between the loan provided to the borrower and other non-credit products. No non-credit products shall be sold as a pre-condition for the loan product, and it shall be based on the voluntary decision of the borrowers and details of such products shall be explicitly communicated to the borrower in the loan card itself.</p> <p>c) In case any information not disclosed earlier by the borrower has come to the notice of the Bank, the Bank will have the right to elicit the necessary information from the borrower and initiate action to protect its interest.</p> <p>d) While, the Bank may participate in credit-linked schemes framed for weaker sections of the society, the Bank shall not discriminate on grounds of gender, caste, and religion in the matter of lending.</p> <p>e) Bank or its agent shall not engage in any harsh methods towards recovery such as:</p> <ul style="list-style-type: none"> <li>• Use of threatening or abusive language</li> <li>• Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.</li> <li>• Harassing relatives, friends, or co-workers of the borrower.</li> <li>• Publishing the name of borrowers.</li> <li>• Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation.</li> <li>• Misleading the borrower about the extent of the debt or the consequences of non-repayment.</li> </ul>

<p>Displaying information at Customer Service Points (CSPs)</p>	<p>All CSPs will have the following information displayed for the benefit of the customer.</p> <ul style="list-style-type: none"> <li>• The FPC document, in the vernacular language, articulating Bank's commitment to transparency and fair lending practices.</li> <li>• All the product details.</li> <li>• The effective rate of interest charged along with details of the minimum, maximum and average interest rate charged, if any.</li> <li>• The processing charges.</li> <li>• The insurance premium</li> <li>• A grievances redressal matrix with contact numbers.</li> </ul>
<p>Training</p>	<p><b><u>Training to Bank Officials.</u></b></p> <p>The conduct of the Bank staff handling microfinance loans will be governed by the Staff Rules and Regulations of HR Department, like all other employees. The staff is bound by the Fair Practice Code as specified above and Bank's conduct principles.</p> <p>In accordance with HR Policies and Procedure the recruitment process of the staff will be carried out and placed with MRBD for handling microfinance business.</p> <p>MRBD jointly with HR (TD&amp;T) will design appropriate training program for the staff handling microfinance, interalia covering handling of customers, appropriate behaviour towards customers etc. The training progress and staff performance will be recorded and monitored by HR.</p> <p>The minimum educational qualification for staff handling microfinance is graduation or matriculation with minimum ten years of experience in branch operations.</p> <p>Conduct of the staff towards customers will be in the performance management matrix and compensation of the staff by HR.</p> <p><b><u>Training to BC/ Partner's officials:</u></b></p> <p>Micro and Rural Banking Department will initiate required training to field staff on required attributes with regard to sourcing, exploring and computing the existing income and debt of the customers. Detailed training will be offered to the customers by the field staff or Bank employees. The training will help the customers familiarize themselves with the procedures and systems related to the loan and such trainings should be free of cost.</p> <p>Periodical training sessions to be given to all Bank staff as per Bank's training policies and the content should include various tools to deal with the customers and to inculcate appropriate behaviour towards customers. Such training shall be on Such behavioural pattern shall be a part of their performance matrix.</p> <p>While onboarding BCs/ BC Officials, eligibility criteria as stipulated in Bank's BC Policy shall be followed. BC officials handling field activities and interacting with customers shall get trained by Bank/</p>

	authorised agencies and such trainings shall include skills and abilities to deal with the customers and shall include subjects relates to appropriate behaviours towards customers.
Grievance redressal Structure	<p><u>For Bank Branches:</u> Will continue with the current structure of grievances redressal mechanism, which is already in practice and applicable while delivering all products and services.</p> <p><u>For Business Correspondents:</u> Detailed grievances redressal matrix enclosed as a part of Loan Card in <b>Annexure III</b>.</p>

### **Loan Collection**

Bank shall identify borrowers facing repayment related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available. Services of BCs/ BC officials can be used, wherever required.

- Shall initiate a field level enquiry at customer point by visiting their houses and by interacting with other household members.
- Make them understand the impact on non-repayment and adverse remarks in credit history.
- Shall inform designated department of the Bank regarding the status and support for customer interaction.

Collection shall be made at a designated/ central designated place decided mutually by the borrower and the Bank. However, field staff deployed by Bank/ BC 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.

- Treat clients with dignity and honesty, transparency, whether customers are paying on time or not.
- Use courteous language, maintain decorum, and be respectful of cultural sensitivities during all interaction with clients.
- Follow all processes relates to proper collection such as.
  - Conduct the collection meeting efficiently and punctually.
  - Report the information on the Collection Meeting accurately and truthfully.
  - Sign on the loan card of every customer as proof of receipt of the instalment.
  - Do not talk disrespectfully to members in front of others, whether the member is present or absent.
  - Staff doing collections should carry ID proof.
  - Do not use abusive language or shout at clients and do not use physical force.
  - Do not enter the client's home uninvited. If there is a death or an accident in a client's household, do not be insensitive or aggressive and be considerate.
- Officials of Bank's Branches/ BCs should correspond with borrowers only during office hours i.e., 9:00 a.m. to 6:00 p.m.
- If the client has repeatedly not paid.
  - Talk to the client to try and understand the issue.



- Talk to the rest of the household, and in particular, the head of the household (the one who signed the loan application form with the member) and motivate them to settle the issue with the errant client.

#### **Training to BC/ Partner's officials:**

Micro and Rural Banking Department will initiate required training to field staff on required attributes with regard to sourcing, exploring and computing the existing income and debt of the customers. Detailed training will be offered to the customers by the field staff or Bank employees. The training will help the customers familiarize themselves with the procedures and systems related to the loan and such trainings should be free of cost.

Periodical training sessions to be given to all Bank staff as per Bank's training policies and the content should include various tools to deal with the customers and to inculcate appropriate behaviour towards customers. Such training shall be on Such behavioural pattern shall be a part of their performance matrix.

While onboarding BCs/ BC Officials, eligibility criteria as stipulated in Bank's BC Policy shall be followed. BC officials handling field activities and interacting with customers shall get trained by Bank/ authorised agencies and such trainings shall include skills and abilities to deal with the customers and shall include subjects relates to appropriate behaviours towards customers.

#### **Engagement of Recovery Agents**

- Recovery agents shall mean agencies engaged by Bank for recovery of dues from its borrowers and the employees of these agencies.
- Respective Business department of the Bank shall conduct a due diligence on the entity/ agents, which shall, inter alia, cover individuals involved in the recovery process. It shall ensure that the recovery agents engaged by them carry out verification of the antecedents of their employees, which shall include police verification. Respective Departments shall conduct a re-verification of antecedents within 12 months from the previous instance.
- To ensure due notice and appropriate authorization, 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. Further, where the recovery agency is changed by the Bank during the recovery process, in addition to Bank notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his/ her identity card.
- The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and the Bank.
- The up-to-date details of the recovery agencies engaged by the Bank shall also be hosted on the Bank's website.

#### **Responsibilities for outsourced activities**

Any of the outsourcing initiative on the above-mentioned activities does not diminish Bank's obligations and the onus of compliance with these directions shall rest solely with the Bank. A declaration that Bank shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement and in the FPC displayed in its office/ branch premises/ website.

## **Conclusion**

Efficient credit delivery is the key to build-up of quality portfolio and customer retention. The Policy gives adequate flexibility to develop viable business proposals. The Policy has also put in place a suitable structure for approval / clearance of new products. Hence, any business proposition/ tie ups considered to be viable and bankable should not be lost on account of non-availability of a suitable scheme/product. It will also be the endeavour of the Bank to further simplify and streamline procedures/processes to expedite the credit delivery besides making efficient use of it for internal credit monitoring.

## **Annexure-I**

### **Indicative Methodology for Household Income Assessment**

For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

#### **Parameters to capture household profile:**

- Composition of the household
  - 1) Number of earning members
  - 2) Number of non-earning members
  - 3) Type of accommodation (owned/ rented, etc.)
  - 4) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)
  - 5) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)
- **Parameters to capture household income.**
  - Primary source of income
    - 1) Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)
    - 2) Nature of work (Self-employed or salaried, regular or seasonal, etc.)
    - 3) Frequency of income (daily/ weekly/ monthly)
    - 4) Months/ days of employment over last one year
    - 5) Self-reported monthly income
    - 6) Average monthly income (to be derived from (iv) & (v) above)
  - Other sources of income
    - 1) Remittance
    - 2) Rent/ Lease
    - 3) Pension
    - 4) Government Transfer
    - 5) Scholarship
    - 6) Others (specify details)
  - The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.
  - While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

#### **Parameters to capture household expenses:**

- 1) Regular monthly expenses (food, utilities, transport, house/ shop rent, clothing, regular medical costs, school/ college fees, etc.)
- 2) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)
- 3) Self-reported income as above may be corroborated with the profile of household and household expenses. Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

**THE FEDERAL BANK LTD**

**Microfinance Loan - House Hold Income Assessment Sheet for JLG members**

<b>Date</b>	<b>Place</b>	<b>Center</b>	<b>Group</b>
-------------	--------------	---------------	--------------

**Customer Name**

**PART A- INCOME**

Family Members	Occupation 1	Employment Type	Frequency of income (D/V/W/M)	Income per month	Occupation 2	Employment Type	Frequency of income	Income per month	Total
Member									
Spouse									
Unmarried Son									
Unmarried Daughter									
<b>Total household income (A)</b>									

**PART B- EXPENSES**

Loan obligations				Expenses- Regular		Expenses- Regular	
Loan Type	Loan Amount	EMI	Remaining Tenure	Expense Type	Amount per month	Expense Type	Amount per month
MFL Loan				Rent		Medical	
Vehicle Loan				Food		Others	
Mortgage loan				Clothing			
Consumer Durable loan				Education			
Others				Others			
<b>Total</b>				<b>Total</b>			

**Eligibility Assessment**

<b>EMI of the proposed loan</b>	<b>EMI of the proposed loan</b>	<b>Total monthly obligations (including proposed loan) (B)</b>
<b>Debt Burden Ratio [B]/(A)*100</b>		<b>Signature of member</b>
<b>* Member is eligible, if DBR is less than 50%</b>		<b>Signature of Field Officer</b>

## Annexure-II

### Illustration for Determining the Interest Rate on Microfinance Loans

Interest rates for fixed rate loans of tenor up to three years shall be as follows:

SN	Parameter	Details
(i)	Marginal Cost of Funds (MCLR) for 1 Year (MCLR includes: Marginal Cost of Fund Negative Carry on CRR Operating Cost on Funds Tenor Premium)	9.80
ii.	Spread inclusive of the Risk Premium Spread may be selectively reduced for customers with good Credit Score. The Spread shall not be however, less than 2.50%	3.20
iii	Operational Cost towards Servicing of MFI borrowers The operational expense of NBFC-MFIs who undertake MFI activity is around 7% - 9%. Since Bank may engage such entities as Business Correspondents, we have used that higher number of 9% as Operational expenses.	9.00
Effective interest rate on MFI loans will be 22% or above. MCLR to be reset after one year and may increase or decrease subject to change in terms from time to time. The maximum interest rate on the microfinance loans shall not be more than 28%.		

## Annexure-III



Microfinance Loan/Br.

/FEDXXXXXXXX/2024-25

Date: XX/XX/XXXX

## LOAN CARD

Service Provider					
SP Branch		Village		Center	
Group Code		Group Name			
Member Name		Member Cont No		Cycle	
Address					
Loan ID		Disb Amount		Disb Date	
Repayment Mode	Monthly	ROI	%	No. of Installments	

EMI Number	Due Date	Balance O/s	Principle	Interest	EMI (Prin+Int)	Date of Collection	Amt Collected	Remarks	FO- Signature
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									

## Annexure - IV



Microfinance Loan /Br. /FEDXXXXXXXX/202...-202...

Date: XX/XX/XXXX

### Grievance Redressal Matrix- BC engagements

No.	Level	Officer in Charge	Name & Contact Number
1	All complaints/ grievances of customers –1st level	BC- Branch Manager / Officer in Charge (OIC)	
	If not satisfied with reply/action taken by them within 7 days, customers can escalate the matter to:		
2	Complaints at BC's HO level	Head- Grievance redressal at BC- HO	
	If not satisfied with reply/action of Head- Grievance redressal at BC-HO within 7 days, next level of escalation to:		
3	Bank's Project Coordinator-concerned	Project Coordinator	
	If not satisfied with reply/action of PCO within 7 days, next level of escalation to:		
4	Business Department at HO level	Head- Business Department	
	If not satisfied with reply/action of Head- Business Dept within 7 days, next level of escalation to:		
5	Principal Nodal officer of Grievance redressal	Executive Director- FBL	
	If not satisfied with the reply/action taken by the bank within 30 days, customers can approach the Banking Ombudsman.		

### Annexure V

#### Illustrative Factsheet on computation of APR for Microfinance Loans

Sr. No.	Parameter	Details
1	Sanctioned Loan amount (in Rupees) (SI no. 2 of the KFS template - Part 1)	20,000
2	Loan Term (in years/ months/ days) (SI No.4 of the KFS template - Part 1)	
a)	No. of instalments for payment of principal, in case of non-equated periodic loans	-
b)	Type of EPI Amount of each EPI (in Rupees) and nos. of EPIs (e.g., no. of EMIs in case of monthly instalments) (SI No. 5 of the KFS template - Part 1)	Monthly 970 24
c)	No. of instalments for payment of capitalised interest, if any	-
d)	Commencement of repayments, post sanction (SI No. 5 of the KFS template - Part 1)	30 days
3	Interest rate type (fixed or floating or hybrid) (SI No. 6 of the KFS template - Part 1)	Fixed
4	Rate of Interest (SI No. 6 of the KFS template - Part 1)	15%
5	Total Interest Amount to be charged during the entire tenor of the loan as per the rate prevailing on sanction date (in Rupees)	3,274
6	Fee / Charges payable (in Rupees)	400
A	Payable to the RE (SI No.8A of the KFS template-Part 1)	240
B	Payable to third-party routed through RE (SI No.8B of the KFS template - Part 1)	160
7	Net disbursed amount (1-6) (in Rupees)	19,600
8	Total amount to be paid by the borrower (sum of 1 and 5) (in Rupees)	23,274
9	Annual Percentage rate- Effective annualized interest rate (in percentage) (SI No.9 of the KFS template-Part 1)	17.07%
10	Schedule of disbursement as per terms and conditions	Detailed schedule to be provided
11	Due date of payment of instalment and interest	DDMMYYYY



**Annexure VI**  
**Illustrative Repayment Schedule under Equated Periodic**  
**Instalment for the hypothetical loan**

<b>Instalment No.</b>	<b>Outstanding Principal (in Rupees)</b>	<b>Principal (in Rupees)</b>	<b>Interest (in Rupees)</b>	<b>Instalment (in Rupees)</b>
1	20,000	720	250	970
2	19,280	729	241	970
3	18,552	738	232	970
4	17,814	747	223	970
5	17,067	756	213	970
6	16,310	766	204	970
7	15,544	775	194	970
8	14,769	785	185	970
9	13,984	795	175	970
10	13,189	805	165	970
11	12,384	815	155	970
12	11,569	825	145	970
13	10,744	835	134	970
14	9,909	846	124	970
15	9,063	856	113	970
16	8,206	867	103	970
17	7,339	878	92	970
18	6,461	889	81	970
19	5,572	900	70	970
20	4,672	911	58	970
21	3,761	923	47	970
22	2,838	934	35	970
23	1,904	946	24	970
24	958	958	12	970

**Annexure - VII**  
**RACI Matrix**

The RACI matrix given below provides broad overview of the responsibilities/roles of various verticals during disclosure:

<b>R - Responsible</b>	Refers to those who do the work to complete the task.
<b>A - Accountable</b>	Designates the person who ultimately answers the results of an activity, and also who delegates the work to the people who will execute it.
<b>C - Consulted</b>	Refers to those who sought be heard on the related activity, and with whom there is two-way communication.
<b>I - Informed</b>	Designates those who sought to be kept up to date on the progress of the activity, and with whom there is just one-way communication.

<b>Policy on Micro Finance</b>	<b>MRBD Dept</b>	<b>Compliance Dept</b>	<b>Credit Risk Dept</b>	<b>Board</b>
<b>Micro Finance Policy</b>	R/C	I/C	I/C	A
<b>Scheme Formation and subsequent modifications</b>	R/C	I/C	I/C	I
<b>Review of Policy</b>	R/C	I/C	I	A
<b>Dissemination of Policy</b>	R/C	I	I	I