



VIRUTCHAM MICRO FINANCE LIMITED FAIR PRACTICE CODE

1. Introduction

Virutcham was incorporated under Companies Act and obtained NBFC MFI license from RBI. The Reserve Bank of India through its circulars on various dates issued guidelines on Fair Practices Code (FPC) for all NBFCs to be adopted by them while doing lending business. The guidelines inter alia, covered general principles on adequate disclosures on the terms and conditions of a loan and also adopting a non-coercive recovery method.

2. Guidelines on Fair Practices Code of NBFCs

(i) Applications for loans and their processing

(a) All Communications to the borrower shall be in the vernacular language or a language as understood by the borrower.

(b) Virutcham Loan application forms shall include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form shall indicate the documents required to be submitted with the application form. Virutcham shall give acknowledgement for receipt of all loan applications, with the time frame within which loan application will be disposed of.

(ii) Loan appraisal and terms/conditions

- Our policy is to be reasonable, transparent and fair with the customers. All communications with the borrower is in the vernacular language. The terms and conditions of the loans offered by us are clearly communicated to the customers in written form and also taught during the two days of compulsory free training given to each centres. Virutcham educates the customers about these terms and conditions so that the customer can make a well informed decision about a loan. The application will go through an internal procedure and also a Credit Bureau check before loans are processed or approved. The applications which do not satisfy this procedure will be automatically rejected. In the event that the loan is rejected, Virutcham would communicate the decision to the customer.

- To prevent over-indebtedness and over-borrowing, Virutcham has registered with Credit Bureaus and in addition to the internal records and appraisal mechanism, the data of each client with respect to current debt levels and repayment history will be used to assess the eligibility for loan.

(iii) **Disbursement of loans including changes in terms and conditions**

- (a) Virutcham shall give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including repayment schedule, interest rates, service charges, prepayment charges etc. Virutcham shall also ensure that changes in interest rates and charges are affected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement.
- (b) Decision to recall / accelerate payment or performance under the agreement should be in consonance with the loan agreement.
- (c) Virutcham shall not obtain any collateral security for its microfinance loan products. No charges levied on prepayment.
- (d) Virutcham release all securities received on loans other than microfinance loans (Falling under other than Qualifying Assets) 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 Virutcham 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 Virutcham are entitled to retain the securities till the relevant claim is settled / paid.

(iv) **General**

Virutcham continuously updates its Fair Practices Code to reinforce the commitment to fair practices in lending, transparency to customers and ethical standards in business practices and relationship with customers. The Fair Practices Code is displayed in all our branch offices, the Head Office as well as the Company website www.virutcham.org. The effective rate of interest charged and the grievance redressal system set up by the Virutcham is also prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website.

- (a) Virutcham refrains from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender).
- (b) In case of receipt of request from the borrower for transfer of borrower account, the consent or otherwise i.e. objection of Virutcham, if any, is conveyed within 21 days from the date of receipt of request. Such transfer shall as per transparent contractual terms in consonance with law.

(v) **Grievance Redressal Officer**

Virutcham has a detailed mechanism for grievance redressal. This will ensure that disputes and grievances are heard and resolved within reasonable period of time. The Virutcham has a designated

grievance redressal officer at the Head-Office who can be reached at the contact details provided on each borrower's loan passbook.

(vi) **Language and mode of communicating Fair Practice Code**

Fair Practices Code which is preferably in the vernacular language or a language as understood by the borrower based on the guidelines outlined hereinabove shall be put in place with the approval of the Board. The same is put up on the company's web-site, for the information of various stakeholders.

(vii) **Regulation of excessive interest**

- (a) Virutcham shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances.
- (b) The rates of interest and the approach for gradation of risks shall also be made available on our web-site updated whenever there is a change in the rates of interest.
- (c) The rate of interest should be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.
- (d) Rate of interest for Microfinance Loan products shall be fixed as per the Board approved policy of Virutcham Microfinance Limited and comply with RBI guidelines in this regard.

(viii) **Disclosures in loan agreement:**

Virutcham conveys the amount of loan sanctioned by means of a sanction letter, along with the loan agreement indicating:

1. Terms and conditions of the loan.
2. The pricing of the loan (which includes only three components, i.e. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof).
3. That no Security Deposit/margin is collected from the borrower.
4. That there will be no penalty charged on delayed repayment.

Virutcham gives notice to the borrower in the vernacular language of any change in the terms and conditions including repayment schedule, interest rates, service charges, etc. Virutcham also ensures that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard is incorporated in the loan agreement. Loan sanctioning is done centrally at Head Office and disbursement of loans is done at the Branch offices. The disbursement function is closely supervised by the Credit Officer and the Branch Manager.

(ix) Loan Card Details

Each borrower is provided with a loan passbook (in vernacular language) at the time of disbursement, reflecting the following details.

- The effective rate of interest charged.
- All other terms and conditions attached to the loan.
- Information which adequately identifies the borrower
- Acknowledgements by Virutcham of all repayments including instalments received and the final discharge.
- The grievance redressal system set up by the MFI and also the name and contact number of the nodal officer
- Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself.

• At the time of disbursement, each customer is assured that the privacy of borrower data will be respected. Written consent will be obtained for use of information in promotions, marketing material and other public information.

• Loans are provided without any collateral for qualifying assets. For non-qualifying assets as and when we take securities, we will 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 NBFCs 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.

(x) Non - Coercive Methods of Recovery

In the matter of recovery of loans, recovery is normally made at a designated meeting venue. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions. Virutcham does not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc.

(xi) Internal Control system

Virutcham shall make necessary organizational arrangements to assign responsibility for compliance to designated individuals within the company and establish systems of internal control including audit and periodic inspection to ensure the same.