



[Registered Office: G.B. Pant Road, Nainital, Uttarakhand-263001]
CIN No. U65923UR1922PLC000234, website: www.nainitalbank.co.in

MICROFINANCE LOAN POLICY DOCUMENT

DOCUMENT CONTROL

Ownership	PRIORITY SECTOR DEPARTMENT
Title	MICROFINANCE LOAN POLICY DOCUMENT
Date of Approval	SEPTEMBER 2023
Classification	PRIORITY SECTOR DEPARTMENT
Periodicity	ANNUAL
Review	THIS POLICY WILL BE REVIEWED ON YEARLY BASIS AND IN BETWEEN NECESSARY AMENDMENTS, IF NEEDED, WILL BE MADE FROM TIME TO TIME.

TABLE OF CONTENTS

Sn	Particular	Page no.
1.	Introduction	2
2.	Objective	2
3.	Applicability	2
4.	Effective Date	2
5.	Validity	2
6.	Definition of Microfinance Loan	2
7.	Assessment of Household Income	2
8.	Reporting of Household Income	2
9.	Limit on Loan Repayment Obligations of a Household	3
10.	Pricing of Loan	3
11.	Penal Interest	4
12.	Charges	4
13.	Standardized Simplified Factsheet	4
14.	Other Informations for publications	4
15.	Conduct of Borrowers	4
16.	Training of Staff	5
17.	Responsibilities of Outsourced Staff	5
18.	Recovery of Loans	5
19.	Engagement of Recovery Agents	6
20.	Formulation of Lending Schemes and Reporting to RBI	6
21.	Fair Practice Codes	6
22.	Prudential Norms for Asset Classification	7
23.	Annexures	8-13

1. INTRODUCTION:

Microfinance is a form of financial service which provides small loans and other financial services to poor and low-income households. It is an economic tool designed to promote financial inclusion which enables the poor and low-income households to come out of poverty in a sustainable manner, increase their income levels and improve overall living standards. It can facilitate achievement of national policies that target poverty reduction, women empowerment, assistance to vulnerable groups, and improvement in the standards of living.

2. OBJECTIVE:

To provide a comprehensive Policy Document which will regulate all lending products/schemes for Microfinance Loans to households, across the business vertical of the bank.

3. APPLICABILITY:

The provisions of these directions shall apply to the following entities:

- (I) All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks;
- (II) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and
- (III) All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

4. EFFECTIVE DATE:

This policy is effective from 05.09.2023.

5. VALIDITY:

This policy will remain valid till 04.09.2024. However, review will be undertaken before the due date, if there is any change in the regulatory guidelines or in Bank's internal guidelines.

6. DEFINITION OF MICROFINANCE LOAN:

- A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to Rs.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 (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.
- To ensure collateral-free nature of the microfinance loans, 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.
- There is no requirement of keeping any deposit/ margin/ collateral/ primary security with the lender at any stage of the microfinance loan.

7. ASSESSMENT OF HOUSEHOLD INCOME

Methodology for Assessment of Household Income is provided in Annexure-I

However, the business verticals may consider and use methodologies other than the one in Annexure I for assessment of household income, with prior approval of the Board. For this purpose, suggestions made by NGOs/associations/agencies etc. will be given due consideration.

8. REPORTING OF HOUSEHOLD INCOME:

The Bank shall mandatorily submit information regarding household income assessed by it to the Credit Information Companies (CICs). To enable correct reporting of household income of borrowers to CICs, a provision in CBS will be created at the time of account opening in Finacle to capture household income.

Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before sharing the assessed household income with CICs.

As per the directions of RBI, the banks require assessment of income and indebtedness at household level. There is no requirement of treating all members of the household as applicants/ borrowers of a loan which can be provided to an individual member.

9. LIMIT ON LOAN REPAYMENT OBLIGATIONS OF A HOUSEHOLD:

9.1. Business Verticals are free to set the limit on the outflows/deductions on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income, subject to a maximum of 50 per cent of the monthly household income.

9.2. The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loan as well as any 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 as well as the loan under consideration.

9.3. 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.

9.4. Borrowers should be given flexibility on repayment periodicity and repayment periodicity can be scheduled as per borrowers' requirement. However, the maximum period of the loan will be as per the Loan Policy Document of the Bank i.e. the total tenure of the loans shall not exceed 10 years.

9.5. Business vertical shall arrange to provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Business verticals should also ascertain the present indebtedness of borrowers through other means, such as their self-declaration, bank account statements and local enquiries.

9.6. Annualized repayment obligations to be distributed over twelve months to estimate monthly outgo of the household towards debt repayment.

10. PRICING OF LOANS:

10.1. Rate of Interest has to be MCLR linked.

Present one year MCLR (At present)	8.35 %
Strategic Premium (SP)	0.25%
Spread	0-4%
Additional margin# (Not exceeding payout to 3 rd party agency involved in sourcing, if any)	0-5%

(#) There could be an expense towards sourcing or facilitation of various micro financing activities on ground that could involve payment of certain charges as commission by the bank to the agency concerned.

10.2. Based on the above methodology, given below are the ranges of applicable ROI in Microfinance Loans:

- **For bank sourced applications:**
Minimum: MCLR + Strategic Premium
Maximum: MCLR + Strategic Premium + 4.0%
- **For third party sourced applications:**
Minimum: MCLR + Strategic Premium
Maximum: MCLR + Strategic Premium + 9.0 %

10.3. Business verticals can fix their applicable rate of interest in Microfinance Loans in the given range only.

11. PENAL INTEREST:

11.1. Up to Rs. 25,000: Nil

11.2. Above Rs. 25,000: Penal Interest to be charged @ 2% p.a. over and above the applicable ROI, on the amount of default for the period of default.

12. CHARGES:

12.1. Processing Charges

Up to Rs 25000	Nil
Above Rs 25000	Rs 500 + GST

12.2 Prepayment Charges: **Nil**

12.3 Any other charges: **Nil**

13. STANDARDIZED SIMPLIFIED FACTSHEET:

13.1. Business verticals are required to ensure that pricing related information along with any other fees charged are disclosed to all prospective borrowers in a standard factsheet (in accordance with the illustration provided in Annexure - II). This should be done at the time of issuance of sanction letter to the borrowers and the same should be acknowledged by the borrowers.

13.2. The factsheet shall also be provided for other loans (i.e. collateralized loans) extended to borrowers from low-income households.

13.3. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.

14. OTHER INFORMATIONS FOR PUBLICATION

14.1. Minimum, maximum and average rates of interest charged on microfinance loans shall be prominently displayed in all the offices/branches of the Bank, in the literature (information booklets/pamphlets) issued by the Bank. The same information is also required to be published on the Bank's website.

14.2. Information on all microfinance loans shall be included in the returns/statements that are required to be submitted to RBI or any other regulatory agencies.

14.3. Any change in the ROI or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

15. CONDUCT OF BORROWERS

15.1. The Bank's Fair Practices Code (FPC) should include Microfinance Loans in a language understood by the borrower shall be displayed in all branches/offices and published on the Bank's website.

15.2. Business vertical should develop a standard form of loan agreement for microfinance loans in consultation with Legal Department and same should be made available in a language understood by the borrowers.

15.3. Sanction letter/ Loan Card to be provided to the borrowers 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 of all repayments including instalments received and the final discharge
- V. Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.

15.4. All entries in the Sanction Letter/loan card should be in a language understood by the borrower.

15.5. 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 Sanction Letter/loan card itself.

16. TRAINING OF STAFF

16.1. A board-approved policy regarding the conduct of employees and system for their recruitment, training and monitoring to be framed. This policy shall, inter alia, lay down minimum qualifications for the staff and shall provide necessary training tools to deal with the customers. Training to employees shall include programs to inculcate appropriate behavior towards customers. Conduct of employees towards customers shall also be incorporated appropriately in their compensation matrix.

16.2. Field staff shall be trained to make necessary enquiries regarding the income and existing debt of the household. However, the bank in consultation with Human Resource Department will impart training to staff dealing specifically with microfinance loans.

16.3. Training, if any, offered to the borrowers shall be free of cost.

17. RESPONSIBILITIES FOR OUTSOURCED ACTIVITIES

17.1. Business verticals are permitted to source of business and/or outsource any activity like collection under Microfinance through service provider/partners with or without co-lending. However, outsourcing of business or any other activity by the Bank does not diminish its obligations and the onus of compliance with the regulatory directions/guidelines rests solely with the Bank.

17.2. A declaration that the Bank shall be accountable for inappropriate behavior by the Bank's employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement and also in the FPC displayed in the Bank's offices/ branch premises/ website.

18. RECOVERY OF LOANS

18.1. Borrowers facing repayment related difficulties will have to be identified and get engaged to provide them necessary guidance about the recourses available.

18.2. Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the Bank. However, field staff is 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.

18.3. Business vertical should ensure that the Bank or its representatives 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 without consent.
- 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

18.4. The details of the Bank's mechanism for redressal of recovery related grievances shall be provided to the borrower at the time of loan disbursal.

19. ENGAGEMENT OF RECOVERY AGENTS

19.1. Recovery agents shall mean agencies engaged by the Bank for recovery of dues from its borrowers and the employees of these agencies.

19.2. Engagement of recovery agents by the Bank should be done as per Bank's Outsourcing Policy and by following a due diligence process which shall cover, inter alia, individuals involved in the recovery process. The engagement of recovery agents should carry out verification of the antecedents of their employees, which shall include police verification. There should be a periodicity of 3 years at which re-verification of antecedents shall be done.

19.3. While engaging any Recovery Agency for recovery of Microfinance Loans, business verticals should ensure fulfilling of following aspects before onboarding:

- i. Ensure due notice and appropriate authorization, the Recovery Department of our Bank shall provide the details of recovery agents to the borrower at the time of 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 the Bank notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card.
- ii. The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and the Bank.

19.4. The up-to-date details of the recovery agencies engaged by the Bank shall also be published on the Bank's website by Recovery Department of our Bank.

20. FORMULATION OF LENDING SCHEMES AND REPORTING TO RBI:

Subsequent to the approval of the Policy on Microfinance Loans, each business vertical has to issue separate guidelines on new lending product (if required) for operating /business units in line with the approved policy of the Bank.

Business verticals are required to arrange for submission of report on progress and performance under Microfinance Loans pertaining to them as and when required.

21. FAIR PRACTICE CODES:

- Microfinance loan is to be extended to the borrowers irrespective of end use, based on their loan eligibility except for illegal/speculative activities.
- No margin, hypothecation, deposits, primary or collateral security should be insisted from the borrower at any stage of the loan.
- The loan should not be linked with a lien on any deposit account of the borrower.
- These loans should not have backed with hypothecation of any security.
- Flexibility of repayment periodicity is to be provided to the borrowers as per their requirement.
- All pricing related information along with any other fees charged should be disclosed to all borrowers in a standard factsheet.
- The borrowers should not be charged any amount which is not explicitly mentioned in the factsheet.
- Minimum, maximum and average rates of interest charged on microfinance loans should be displayed in all the offices/branches of the Bank, in the literature (information booklets/pamphlets) issued by the Bank.
- The same information should also published on Bank's website.
- Any change in the ROI or any other charge should be informed to the borrower well in advance

and these changes should be made effective only prospectively.

- Sanction Letter/Loan Card should be provided to all the borrowers which shall include following:
 1. Information which adequately identifies the borrower
 2. Simplified factsheet on pricing
 3. All other terms and conditions attached to the loan
 4. Acknowledgements of all repayments including instalments received and the final discharge
 5. Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.
 6. All entries in the Sanction Letter/loan card are made be in a language understood by the borrower.

- Issuance of non-credit products should be done only with full consent of the borrowers and fee structure for such products should be explicitly communicated to the borrower in the Sanction Letter/loan card itself.
- Bank is accountable for inappropriate behavior by the Bank's employees or employees of the outsourced agency.
- Borrowers are to be provided with timely grievance redressal.
- Borrowers facing repayment related difficulties should be identified and engaged to provide them necessary guidance about the recourses available.
- Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the Bank. However, field staff is 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.
- Bank or its representatives should not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices are deemed as harsh:
 1. Use of threatening or abusive language
 2. Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.
 3. Harassing relatives, friends, or co-workers of the borrower
 4. Publishing the name of borrowers without consent.
 5. Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation
 6. Misleading the borrower about the extent of the debt or the consequences of non-repayment

- The details of the Bank's mechanism for redressal of recovery related grievances should be provided to the borrower at the time of loan disbursal.
- The up-to-date details of the recovery agencies engaged by the Bank should be published on the Bank's website.
- Bank should provide the details of recovery agents to the borrower at the time of initiating the process of recovery.
- The agent should 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 the Bank notifying the borrower of the change, the new agent should also carry the notice and the authorization letter along with his identity card.
- The notice and the authorization letter, among other details, should also include the contact details of the recovery agency and the Bank.

22. Prudential Norms for Asset Classification:

The extant prudential norms on asset classification shall be applicable.

Annexure – I
METHODOLOGY FOR HOUSEHOLD INCOME ASSESSMENT

I. Household Profile of the applicant:			
1. Number of earning members			
2. Number of non-earning members			
3. Type of accommodation (owned/ rented)			
4. Availability of PDS Ration Card (Yes/No)			
5. Availability of basic amenities	Electricity		
	Water		
	Sewage		
	LPG connection		
	Others(specify details)		
6. Availability of other assets	Land		
	Livestock		
	Vehicle		
	Furniture		
	Smartphone		
	Electronic items		
Others (specify details)			
II. Assessment of Household Income:			
II.1. Primary source of income			
1. Sector of work	Agriculture & allied activities		
	Trading		
	Manufacturing		
	Services		
	Others (specify details)		
2. Nature of work	Self-employed		
	Salaried		
	Regular		
	Seasonal		
	Others(specify details)		
3. Frequency of income	Daily/ Weekly/ Monthly		
4. Months/ days of employment over last one year			
5. Self-reported monthly income (in Rs.)			
6. Average monthly income (based on 4 & 5 above)			
II.2. Income from other sources (in Rs.)			
1. Remittance			
2. Rent/ Lease			
3. Pension			
4. Government transfer (DBT)			
5. Scholarship			
6. Others (specify details)			
III. Assessment of Household expenses (in Rs.)			
1. Regular monthly expenses on 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.)			

Please note that:

- a) The income assessment as above is to 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 is to 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.
- b) While the income computation is to be done on a monthly basis, the income assessment for all members and sources is to be carried out over a period of minimum one year to ascertain the stability of the household income.
- c) Self-reported income may be corroborated with the profile of household and household expenses. Further, household income is also to be verified from other sources (bank account statements of the borrowers, DBT transactions in the account, group members, other references in the vicinity etc.).
- d) Reasons for the divergence between reported household income and assessed household income has to be ascertained and incorporated in the loan assessment note as a part of the processing of the loan proposal. One of the ways to ascertain the divergence may be verification from Gram Panchayat / Sarpanch.

Annexure – II
ILLUSTRATIVE FACTSHEET ON PRICING OF MICROFINANCE LOAN
 (To be provided in a language understood by the borrower)

Date: XXX

Branch: XXX

Applicant Name: XXX

Sn	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	20,000
(ii)	Total interest charge during the entire tenure of the loan (in Rupees)	3,274
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	400
(a)	Processing fees (in Rupees)	160
(b)	Insurance charges (in Rupees)	240
(c)	Others (if any) (in Rupees)	-
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	19,600
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	23,674*
(vi)	Effective Rate of Interest	15%
(vii)	Loan term (in months)	24
(viii)	Repayment frequency by the borrower	Monthly
(ix)	Number of instalments of repayment	24
(x)	Amount of each instalment of repayment (in Rupees)	970
Details about Contingent Charges		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

(*) The difference in repayment amount calculated from the total of instalments given under the detailed repayment schedule i.e., Rs.23,280 (=970*24) (excluding Rs.400 (other up-front charges)) vis-à-vis the amount of Rs.23,674 (Rs.20,000 (loan amount) + Rs.3,274 (Interest charges) + Rs.400 (other up-front charges) mentioned under (v) is due to rounding off the instalment amount of Rs.969.73 to Rs.970 under the detailed repayment schedule.

- The insurance charges included in the factsheet are only for credit linked insurance product as these charges are linked to the microfinance loan. A borrower would not have incurred these charges if he had not taken the loan. The factsheet should contain information related to only pricing of microfinance loans to keep it uncluttered

Detailed Repayment Schedule

Instalment No.	Outstanding Principal (in Rupees)	Principal (in Rupees)	Interest (in Rupees)	Monthly Instalment (in Rupees)
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 – III

COMMON APPLICATION FORM FOR MICROFINANCE LOANS

(To be provided in a language understood by the borrower)

A. For office Use:

Name of Applicant	Application Sl. No.	Name of the Branch

B. Applicant's Information:

Name of the Applicant						
Address						
	State		PIN Code			
	Housing Accommodation			Rented	Owned	
Telephone No.		Mobile No.	9			
E-mail:						
Activity	Existing					
	Proposed					
Social Category			SC	ST	OBC	Minority Community
If Minority Community	Buddhists	Muslims	Christians	Sikhs	Jains	Zoroastrians
Household Income (Rs.)	Income of member 1		Income of member 2		Income of member 3	
	Total Household Income (Rs.)					

C. Applicant's Background:

Sn	Name	Date of Birth	Sex	Residential Address with Mobile No.	Academic Qualification	Experience in the line of activity (Years)
1.						
2.						

D. KYC Details:

Sn	Id proof	Id proof no.	Address proof	Address proof no.	Aadhaar No.
1.					
2.					

E. Existing Banking/Credit facilities:

Type of Facilities	Presently Banking with	Limit Availd	Outstanding ason...	Security lodged	Asset classification status
Savings Account		N. A.		N. A.	
Current Account		N. A.		N. A.	

Cash Credit					
Term Loan					
If banking with this bank, customer ID to be given here:					
It is certified that I have not availed any loan from any other Bank / Financial Institution in the past and I/we am/are not indebted to any other Bank/Financial Institution other than those mentioned in column no. E above.					

F. Declaration:

I/We hereby certify that all the information furnished by me/us is true, correct and complete. I have no borrowing arrangements except as indicated in the application form. I/ We shall furnish all other information that may be required by Bank inconnection with my/our application. The information may be exchanged by you with any agency you may deem fit. You may take appropriate safeguard/action for recovery of bank's dues.

Space for Photo	Space for Photo	Space for Photo
(Signatures of applicant/applicants whose photo is affixed above)		

Date:

Place: