

PAHAL FINANCIAL SERVICES PRIVATE LIMITED

Guidelines on Fair Practice Code and Ombudsman for NBFC

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Fair Practice Code

***This Fair Practice Code is applicable to all the products of the Company. ***

Pahal Financial Services Pvt. Ltd. (hereinafter known as “PFSP”) has been extending Microfinance facility to the poor & low-income households. The organization is governed by a balanced team of learned, experienced practitioners and professionals. Following is the “Code of Fair Practices” adopted by the Board.

Loan Applications and processing

- a. All communication to the borrower will be in vernacular language or a language as understood by the borrower.
- b. The loan application shall include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other lenders can be made and an informed decision can be taken by the borrower. The loan application form shall indicate the documents required to be submitted with the loan proposal.
- c. PFSP shall collect all necessary documents from borrowers to comply with the KYC norms of Reserve Bank of India (RBI).
- d. The minimum, maximum and average interest rates to be charged on MFI loans shall be prominently displayed on PFSP’s website, all its branch premises and in other literature issued by the Company.
- e. The loan application shall contain a list of documents required for the availing of the loan.
- f. The loan card issued to the borrower shall contain all relevant details specified by RBI, from time to time. (MFI Loans) and repayment schedule is provided for other loan products.
- g. PFSP shall provide a key fact statement containing all necessary details of the loan product along with pricing related information and the fee charged to the borrower. (MFI Loans)

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

Loan Appraisal and terms/ conditions- and Key Fact Statement for Loans and Advances

- a. PFSP shall convey in writing to the borrower in the vernacular language as understood by the borrower by means of, Key Fact Statement/ loan agreement/ sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualized rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on the record.
- b. Penalties, if any, charged for late repayment shall be disclosed in bold in the loan agreement and explicitly communicated to the borrower in a language understood by them.

- c. PFSP shall not levy any penal rate of interest on delayed payment/ pre-payment charges to any of the borrowers and shall not stipulate any Security Deposit/ Margin. ^{SA}*not applicable for Secured Assets Business*
- d. PFSP will ensure that the loan agreement is fully read and explained in vernacular language to the borrower before or at the time of disbursement.
- e. PFSP shall obtain credit bureau reports for all loan applications to get details of the existing loan repayment obligations of the household/borrower/co-borrower. The Company shall make informed decisions on sanction of loans to borrowers based on the credit bureau report.

Disbursement of Loans including changes in terms and conditions

- a) PFSP shall give notice to the borrower in the vernacular language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. PFSP shall ensure that changes in interest rates and charges are affected only prospectively.
- b) PFSP will release all securities on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim PFSP may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which PFSP is entitled to retain the securities till the relevant claim is settled/ paid. ^{SA}*Applicable to Individual Loan and Secured Assets Business Only*

Responsible Lending Conduct – Release of movable/immovable property documents on repayment/ settlement of personal loans

- a) PFSP shall release all the original movable / immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/settlement of the loan account.
- b) The timeline and place of return of original movable/immovable property documents shall be mentioned in the loan sanction letters issued on or after the effective date.
- c) The procedure for returning original movable/immovable property documents to the legal heirs shall be available on the website of the Company.
- d) Compensation for delay in release of movable/immovable property documents
 - i. In case of delay in releasing original movable/immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment/ settlement of loan, PFSP shall communicate to the borrower reasons for such delay. In case the delay is attributable to the Company, it shall compensate the borrower at the rate of ₹5,000 for each day of delay.
 - ii. In case of loss/damage to original movable/immovable property documents, either in part or in full, PFSP shall assist the borrower in obtaining duplicate/certified copies of the movable/immovable property documents and shall bear the associated costs, in addition to paying compensation as indicated at clause (i) above. However, in such cases, an additional time of 30 days will be available to PFSP to complete this procedure, and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days)

Charging of Interest:

- a. Interest shall be charged from the date of actual disbursement of the funds to the customer.
- b. In the case of disbursement or repayment of loans during the course of the month, interest shall be charged only for the period for which the loan was outstanding
- c. PFSP shall charge interest only on the actual outstanding loan amount, even in cases where one or more instalments are collected in advance.

General

- a. PFSP shall refrain from interference in the affairs of the borrower/ member except for the purposes provided in the terms and conditions of the loan agreement (unless the new information, not earlier disclosed by the borrower, has come to our notice).
- b. PFSP shall oblige the request for transfer of borrower account, the consent or otherwise i.e. objection of the company if any shall be conveyed within 21 days from the date of receipt of request. Such a transfer shall be as per transparent contractual terms in consonance with the law.
- c. In the matter of recovery of loans, PFSP shall not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans etc. PFSP shall ensure that the staff is adequately trained to deal with the customers in an appropriate manner. (**refer to PFSP Code of Conduct & Code of Conduct for Collection Agents for further information*)
- d. PFSP has approved Grievance Redressal mechanism within the organization. The grievance redressal mechanism shall be made prominently displayed at all offices and on the website of PFSP.
- e. The Company shall always adopt an interest rate model as per the Pricing Policy considering relevant factors such as the cost of funds, margin and risk premium, etc., duly approved by the Board. The Company shall disclose minimum, maximum and average rates of interest for different sets of products through formal communications, display in all offices/, Company's website and other literature issued by the Company. The Company shall communicate the rate of interest explicitly in the sanction letter / loan card.
- f. The interest rate shall be charged on an annualized basis. The processing fee shall be levied as prescribed by the Self-Regulatory Organizations (SROs). The insurance premium applicable for the member and their spouse/co-borrower for loan coverage shall also be charged accordingly.
- g. Rate of Interest and other components of the loan shall also be made prominently displayed at all offices and on the website of the company and will be updated whenever there is a change in rate of interest.
- h. PFSP has a built-in re-possession clause in the contract/loan agreement with the borrower which is legally enforceable. To ensure transparency, the terms and conditions of the contract/loan agreement shall also contain provisions regarding:
 - (a) notice period before taking possession
 - (b) circumstances under which the notice period can be waived

- (c) the procedure for taking possession of security
- (d) a provision regarding the final chance to be given to the borrower for repayment of loan before the sale / auction of the property
- (e) the procedure for giving repossession to the borrower
- (f) the procedure for sale / auction of the property
- i. A copy of the Loan Agreement shall be shared with the borrowers. PF SPL shall bring out a statement in local language articulating our commitment to transparency and Fair Lending Practices and the same shall be displayed in the office premises and loan card.
- j. Field staff shall be trained to make necessary enquiries with regard to existing debt to the borrowers.
- k. Training offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan/other products.
- l. The effective rate of interest charged, and the grievance redressal system set up by PF SPL shall be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website. It will contain Grievance Redressal Officer details with contact details, SRO helpline number and details of Officer-in-charge of RBI with contact number if the complaint / dispute is not redressed within a period of one month.
- m. PF SPL will be accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made available in the loan agreement and in the Fair Practice Code (in local languages at all office premises and web site).
Loan products with salient features will also be displayed at office premises and websites.
- n. PF SPL shall comply with KYC guidelines of RBI and the due diligence will be carried out to ensure the repayment capacity of the borrowers.
- o. The details of non-credit products, if any, including the terms and conditions, claim settlement, nomination, etc., shall be advised in detail in the local language and necessary consent shall be obtained from the applicant.

Collection Process

Joint Liability Group:

Pahal shall observe Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 (As Updated) with respect to recovery of loan which shall be made only at central designated place decided mutually by the borrower and PF SPL. However, field staff shall be allowed to make recovery at a place of residence or work of borrower if the borrower fails to appear at the designated place on two or more successive occasions.

Others:

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

PFSP/2025-26/2.0

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

Disclosures in Loan Agreement / Loan Card

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

In the loan agreement following shall be disclosed:^{SA} *certain conditions are not applicable for Individual Loans and Secured Assets Business*

- All the terms and conditions of the loan.
- The interest rate to be charged, method of application thereof, the processing fee charged and the insurance premium applicable for member. The rate of interest and the approach for gradations of risk and rationale for charging different rates of interest to different categories of borrowers in retail finance shall be disclosed to the borrower in the application form and communicated explicitly in the sanction letter / loan card / fact sheet (Not applicable on MFI Loans).
- No penalty charge for delayed payment for MFI Loan.
- No Security Deposit / Margin is being collected from the borrower itself or by third parties as a condition to avail the loan.
- Moratorium between the grant of the loan and the due date of repayment of the first installment.
- The privacy of borrower data will be respected, and no data will be shared with the third party without taking customer consent unless required by regulation.
- Grant of loan is not linked to any other product/services offered by the company or third party
- Grievance redressal mechanism.
- Commitment to transparency and fair lending practices as prescribed by RBI.
- Company will be accountable for preventing inappropriate employee behavior and timely grievance redressal.
- The Company shall give options of repayment frequency to all its customers to choose between weekly, biweekly, or monthly depending on their cash flow.

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

- Borrower's identity and the relevant information.
- All the entries in the loan card shall be in the local language.
- Annualized rate of interest charged, processing fees, Insurance etc.
- Salient terms and conditions of the loan.
- acknowledgements for the repayments including installments received and final discharged.
- Grievance Redressal System with name and contact number of the nodal officer.
- Non-credit products issued shall be with full consent of the borrowers and fees Structure.
- All entries in the loan card shall be in the vernacular language.

PFSP/2025-26/2.0

Non-Coercive Methods of Recovery

PFSP shall ensure Master Direction - Know Your Customer (KYC) Direction, 2016 (as updated) guidelines stipulated by RBI are complied with and adequate due diligence is carried out on the customer before extending the loan.

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

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

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

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

Reserve Bank – Integrated Ombudsman Scheme, 2021

NBFCs covered under the Reserve Bank – Integrated Ombudsman Scheme, 2021 (RBIOS, 2021) shall comply with the directions provided under the said Scheme.

Internal Control System

PFSP shall set-up monitoring cell with proper designated individuals for establishment of proper internal control systems including audit and periodic inspections.

Loan facilities to the physically/visually challenged by PFSP

NBFCs shall not discriminate in extending products and facilities including loan facilities to physically/visually challenged applicants on grounds of disability.

Review of Fair Practice Code:

The Fair Practice Code of the Company shall be reviewed by the Board at least annually.