

AU Small Finance Bank Limited

Fair Practice Code for Lenders April 2018

Contents

1. Introduction	3
2. Guiding Principles	3
3. Credit Application Forms (CAF) and their Processing.....	3
4. Credit Appraisal and Terms/Conditions.....	4
6. Post Disbursement Supervision	7
7. General.....	7
8. Display of Information by Banks	8
9. Complaints, Grievances and Feedback.....	8
10. Key Statement/Fact Sheet	9
11. Glossary.....	9

1. Introduction

Fair Practice Code for Lenders lays down a transparent and clear Policy regarding the transactions of the Bank with its borrowers, co-applicants and guarantors (collectively referred to as “borrower” or “applicant” in the rest of this document, as the context requires). This Policy is applicable for all lending products offered by the bank.

2. Guiding Principles

This Policy document governs the entire design and functioning of various lending products offered by the Bank along with the terms and conditions associated with each one of them. This Policy document recognizes the rights of borrowers and will serve as a helpful tool providing information to prospective borrowers regarding application, processing, to post disbursement activities, service and closure of the loan. The Bank has a separate Policy on “Collection of Dues and Repossession of Security” which lays out the guidelines that need to be adhered by the Bank and its designated officials while collecting overdue credit facilities and repossessing security.

3. Credit Application Forms (CAF) and their Processing

- 3.1 The Bank will ensure that it makes available a CAF free of cost along with a checklist of documents required to be submitted along with the CAF by the applicant. The Bank will normally collect all particulars required for processing at the time of submission. Bank will obtain a declaration from the borrower indicating the extent of loans availed of by them from other banks as input for credit evaluation and to ensure that such accommodation from different banks is not obtained against shares of a single company or a group of companies. In case any additional information is needed, the Bank will contact the applicant to obtain the required information.
- 3.2 The Credit Application Form (CAF) will be exhaustive in terms of information, irrespective of the type and amount of credit facility. The Credit Application Form will have information regarding the processing fees and other charges such as:
 - Fees that is applicable for processing the loan application and documentation charges
 - Fees that will be refunded in case the application is rejected
 - Penalty charges which may be charged for delayed repayments.
 - Options for Pre-payment and other miscellaneous charges, if any.
 - Conversion charges that may be applicable for changing credit facility type from fixed to floating, and vice versa.
 - Any other charges which affects the interest of the borrower.

- 3.3 An acknowledgement for receipt of Credit Application Form will be provided for all applicants. The time frame regarding the processing of Credit Application Form will be indicated in the same.

In the event of rejection, the Bank will convey in writing the main reason(s) which has led to the rejection of credit facility based on the internal risk guidelines of the Bank, normally within a reasonable time period.

- 3.4 Timelines for Credit Decision Banks shall verify the loan applications within 4 weeks for cases up to 2Cr and within 6 weeks for cases above 2Cr. If additional details / documents are required, they shall be intimated to the borrowers immediately.

4. Credit Appraisal and Terms/Conditions

- 4.1. Credit Facilities are sanctioned on the basis of established underwriting criteria that is detailed in the internal Credit Policy manual of the Bank. Credit officers will diligently ensure adherence to Credit Policies while approving credit proposals.
- 4.2 The Bank will undertake a holistic assessment of the credit worthiness and credit requirement of the prospective borrower. The Bank caters to a segment of borrowers who may not have adequate documentation to substantiate their income. The Bank has developed specialized skills to assess the credit worthiness and credit requirements of this segment of customers. The Bank will conduct an appropriate level of due-diligence which would be in line with its risk appetite, Bank's Credit Policies and the relevant regulatory guidelines.
- 4.3 The Bank will verify the details as mentioned in the CAF by contacting the applicants through staff/designated official at the business address/residence as mentioned in the CAF.
- 4.4 The Bank will convey to the applicant the credit terms along with terms and conditions and obtain acceptance of the same with their full knowledge on record.
- 4.5. In case of sanctioning of credit facilities, the Bank will put down in writing, the terms and conditions and other information governing the credit facilities agreed upon in the Credit Facility Agreement which will serve as a legally binding document between the Bank and the borrower. The Bank will also supply, free of charge, authenticated copies of all the Credit Facility Agreement along with the enclosures listed in the same to the borrower at the first instance and afterwards on request.

- 4.6 The Bank will allow the applicant to utilize the sanctioned credit on the terms agreed, however for drawings beyond the sanctioned limit including the following situations, the decision will rest solely at the discretion of the Bank:
- 4.6.1 Drawings which are beyond the sanctioned limit as stated in the Credit Application Form.
 - 4.6.2 Drawings in an account which has been classified as a Non-Performing Asset.
 - 4.6.3 Drawings for purposes other than what is mentioned and agreed upon in the Credit Application Form.
- 4.7 Any decision regarding fresh credit issuance will be at the sole discretion of the Bank after conducting a fresh credit assessment/due diligence of the applicant.
- 4.8 Any change/addition in an existing credit facility requested by the customer will be at the sole discretion of the Bank based on its internal policies and risk assessment.
- 4.9 In case of microfinance and loan to SHG/JLG, the Bank will decide the borrower's group formation first and then proceed with the application process.
- 4.10. The Bank may use the services of Credit Information Companies (CIC) and the information provided by them for decision making regarding granting of credit facilities to the applicants. The Bank will ensure that it explains the role of Credit Information Companies (CIC) to the prospective borrower as follows:
- The Bank will report the credit details of all the prospective borrowers to CIC(s).
 - The Bank will update and report the above mentioned information at periodic intervals as suggested by the regulatory authority to the CIC(s).
 - The Bank will also include information regarding the debts even when the borrower has fallen behind the repayment schedule, or the amount owed is in dispute or the borrower have made unsatisfactory proposals to repay the loan while reporting to CIC(s).
 - In case the borrower's credit facility account has been in default, and thereafter regularized, the Bank will update such information with the CIC(s) in the subsequent report.
 - The Bank will, on request and a payment of nominal fee, provide a copy of the credit information obtained from CIC.
 - The Bank will ensure that CIC(s) are kept updated about the account details, in case it becomes 'standard' after a period of being 'sub-standard' and/or immediately after the account is regularized/closed to the Banks' satisfaction.
 - A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower.

5. Disbursement including any change in Terms and Conditions

- 5.1 The Bank will ensure timely disbursement of sanctioned credit facility after compliance with all terms and conditions governing the same.
- 5.2 The Bank will also provide an amortization schedule for term loans.
- 5.3 Borrowers will be required to furnish periodic information to enable monitoring and review of credit facilities from time to time as per the terms of the sanction and as and when the bank believes that it needs the information in case of an event which could have material impact on the borrowers business and / or the bank's facilities.
- 5.4 Renewal of credit facilities will be based on the borrower providing the necessary information / documentation for periodic review of the facilities as given above as well as prior to the renewal date of the facilities as mentioned in the terms and conditions specified in the Credit Facility Agreement.
- 5.5 The Bank may review whether to allow further drawing or not in the event of fresh information about the borrower becomes available or known.
- 5.6 The Bank will notify any change in terms and conditions such as interest rates or service charges in writing (as per the accepted modes of communication for e.g. print, email etc.) to the borrowers and ensure that such changes are affected prospectively on the customers

Borrowers having credit facilities which are charged on a floating rate basis will be communicated of every change in Marginal Cost of Funds based Lending Rate (MCLR) in writing. Further, for credit facilities linked to other benchmark rates (as may be specified by the Reserve Bank of India from time to time), any revision in the benchmark rate will be communicated to the borrower

- 5.7 Banks shall ensure that all information relating to charges /fees for processing are invariably disclosed in the loan application forms. Further, the banks shall inform 'all-in-cost' to the customers.

6. Post Disbursement Supervision

- 6.1 The Bank will undertake post-disbursement supervision as mentioned in the Credit Facility Agreement and as suggested by the normal banking practices provided by RBI.
- 6.2 The Bank will release all securities under full repayment of credit facility. However the Bank may still hold certain securities as a legitimate claim it may have against the borrowers for other credit facilities enjoyed by them with the Bank, or in their capacity as co-applicant or guarantors for facilities enjoyed by other borrowers with the Bank. In such an event, borrowers will be given a notice containing information regarding the residual claims the Bank has, along with documents providing the Bank a legitimate right to hold on to the securities till the claims are completely settled.
- 6.3 The Bank will give a reasonable notice period as mentioned by the Credit Facility Agreement to the borrowers if it decides to recall or accelerate repayment or seek additional securities and higher margins. This rule will not apply if such events are pre-decided in the Credit Facility Agreement itself. In such a case, the Bank may recall/accelerate repayment or seek additional securities/higher margins at its discretion.
- 6.4 In case an excess amount is left after recovery of all dues and meeting all the other related expenses, it will be duly returned to the borrower provided the Bank does not have any other claim against the borrower.

7 General

- 7.1 The Bank will not involve itself in the affairs of the borrowers except for what is already specified under the Credit Facility Agreement, unless new information which in the opinion of the bank could have a material adverse impact on the interests of the Bank comes to surface. In such a case, the Bank will have the right to seek and elicit the information required to safeguard the Bank's interest. This however does not imply that the Bank's right of recovery and enforcement of security as per law as well as appointment of nominee director, where required, is affected by this commitment.
- 7.2 The Bank will not discriminate on the grounds of caste, gender and religion while carrying out its lending operations. However, the Bank shall participate/ offer credit-linked schemes to weaker sections of the society.

- 7.3 The Bank will not resort to harassment or use of force for the recovery of credit facilities. It will have recourse to all available means under law and as specified in the Credit Facility Agreement for collection and recovery of its dues.
- 7.4 In the event of a receipt of credit facility account transfer request, initiated either by the borrower or from another bank, offering to take-over the credit facility, the Bank's final consent or objection will be conveyed within 21 days from the receipt of request.
- 7.5 The Bank will provide overdraft facility (loans against assets such as property, fixed deposits etc.) and will give details regarding the procedure of calculation of overdrawn amount and will also specify how the interest will be calculated on a credit facility amount.

8 Display of Information by Banks

8.1 The Bank will display information related to interest rates and service charges in the format prescribed by RBI from time to time. The Bank shall ensure that the latest information is placed on its website for the customer to make an informed decision.

The Bank shall display the interest rate range of contracted loans for the past quarter for different categories of advances along with the mean interest rates for such loans on its website.

Apart from that the Bank shall place the following on its website:

- CAF relating to loans and advances
- Copy of blank agreement to be executed by the borrower
- Terms and Conditions for advancing credit facilities
- Processing fees and other charges
- Interest rates on loans and advances

The Fair Practices Code adopted by the Bank shall be available on the website of the Bank and shall also be displayed in the Branches.

The Bank shall clearly mention the timeline for disposal of CAF and shall institute a suitable monitoring mechanism for reviewing CAF pending beyond the specified period.

9 Complaints, Grievances and Feedback

The Bank has a "Customer Grievance Redressal Mechanism" in place which governs the redressal procedure for handling customer complaints. Customer Grievance Redressal policy document aims

at minimizing instances of customer complaints and grievances through proper service delivery and review mechanism and ensure prompt redressal of customer complaints and grievances. The contact details of various officials for handling customer complaints will be mentioned in the “Customer Grievance Redressal Policy”.

10 Key Statement/Fact Sheet

Banks shall provide a clear, concise, one pager key fact statement/fact sheet, as per prescribed format, to all individual borrowers at every stage of the loan processing as well as in case of any change in any terms and conditions.

11 Glossary

Term	Definition
Bank	This refers to AU Small Finance Bank
CAF	Acronym for “Credit Application Form”, refers to the initial form applicants must fill to seek credit facilities from the bank
CIC	Acronym for “Credit Information Company”
Credit Facility Agreement	It refers to the legal agreement between the Bank and the borrower specifying the terms of disbursement of credit facility
IBA	Acronym for “Indian Banks’ Association”
JLG	Acronym for “Joint Liabilities Group”
MCLR	Acronym for “Marginal Cost of Funds based Lending Rate”
RBI	Acronym for “Reserve Bank of India”
SHG	Acronym for “Self Help Group”